SBA'S PROCUREMENT AUTOMATED SOURCE SYSTEM PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON GENERAL OVERSIGHT AND THE ECONOMY

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

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SBA'S PROCUREMENT AUTOMATED SOURCE SYSTEM PROGRAM

WEDNESDAY, JANUARY 25, 1984
HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL OVERSIGHT
AND THE ECONOMY,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2359-A, Rayburn House Office Building, Hon. Berkley Bedell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN BEDELL

Mr. BEDELL. The subcommittee will come to order.

I am delighted to have so many members of our subcommittee here in attendance.

Today the Oversight Subcommittee will explore the operation and management of the Small Business Administration's procurement automated source system [PASS]. PASS is a repository of information about the size, capabilities and ownership of small business firms that is used by Federal agencies and large contractors to locate small companies wishing to do contracting and subcontracting with the Federal Government.

This subcommittee 2 weeks ago received a report from the GAO that was very critical of the way PASS was being operated. The report estimated that 71 percent of the 89,000 firms on PASS have not been updated and may contain incorrect information. The report also said that as many as 72,000 small businesses who expressed interest in PASS were never contacted by SBA. The GAO report states:

> SBA needs to improve its management and technical control in operating the current system. . . . Thousands of small businesses will continue to be considered for Federal contracts. . . . The system may lose credibility among procurement representatives and contractors who depend on it to identify qualified small businesses.

It is clear that PASS is an important SBA program.

Managed and operated properly, it can be a valuable tool for all who are involved in Federal procurement. That is why the continuing problems with PASS are so disturbing.

The subcommittee is well aware of the steps that SBA has taken to improve PASS. I think it is fair to say that the investigation by the GAO auditors had a lot to do with this. However, serious questions remain about SBA's plans for the future of the system.

I hope that this hearing will contribute to a healthy future for the PASS program. Speaking for myself, I can assure the SBA that I will continue to follow the development of PASS.

Today we will hear testimony from two private contractors who are familiar with PASS; the U.S. Railway Association—a Federal agency currently operating the system—and a panel of SBA officials responsible for the management of PASS.

One final note. Based on interviews the subcommittee staff had with GAO auditors familiar with SBA's other data processing management contracts, I requested another GAO study to review SBA's overall computer-based information activities. This request asked the GAO to undertake a detailed review of the automated software that supports SBA's $14 billion loan portfolio.

I believe, because of the problems that GAO found in SBA's management of the PASS program, it is imperative that this subcommittee keep up to date in this vital area. Weakness in any of the systems that support loan administration must be spotted early in order to assure proper administrative management in its very substantial loan portfolio. A copy of my GAO request is available from the subcommittee offices.

[See appendix A.]

Mr. Addabbo, do you have any opening statement?

OPENING STATEMENT OF HON. JOSEPH P. ADDABBO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. ADDABBO. Thank you very much, Mr. Chairman. Again, I commend you for holding these most important hearings because this program is supposed to accelerate and give a great opportunity for small businesses to participate in our multibillion-dollar spending, especially in defense.

As you have pointed out, the program was established to centralize a computer-based inventory and referral system, and was designed to maintain information about small businesses interested in providing goods and services to the Government as prime contractors or subcontractors. The system is designed for use by Federal agencies and Government prime contractors to identify small businesses and thereby increase their procurement opportunities to compete for Federal contracts.

Unfortunately, a number of problems have caused the PASS system to lose its credibility with the procuring agencies. However, as you pointed out, an investigation conducted by the GAO has cited SBA's mismanagement of the system as one of the major reasons why the system has been unreliable.

I believe that these hearings will be both informative and useful to SBA to assist them in devising an effective system which would achieve the statutory objective of increasing procurement opportunities for small businesses. As you said, this committee fully knows that, in our economy, 90 percent of the business is small business. If that fails, then our entire economy fails.

Thank you, Mr. Chairman.

Mr. BEDELL. Thank you, Mr. Addabbo.

Mr. Olin.

Mr. OLIN. I have nothing now, Mr. Chairman.

Mr. BEDELL. Mr. Bilirakis.

OPENING STATEMENT OF HON. MICHAEL BILIRAKIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Sir, I am pleased that you have called this hearing today to investigate PASS. After reading over the General Accounting Office study of PASS, I am disturbed, as you are, to say the least.

The concept of PASS is good. I think we can all agree to that. However, it appears that what started out to be good for small businesses who want to do work for the Government has turned into a mismanaged, ineffective program that has cost the taxpayers millions of dollars with little return in benefits. I find this situation almost embarrassing.

I work closely with small business groups in my district, as you know, and recently at a hearing of this subcommittee in my district, I made available to the attendees a pamphlet put out by the SBA. In bold print on the brochure it is printed, "Do you want government business? This could be your pass to potential Government contracts or subcontracts. Fill out and mail today." There are companies in my district, sir, who want to use PASS in order to sell their goods and services to the Government. Additionally, I had occasion to request labels from the PASS system through the SBA. We did not receive them in time, nor were there many labels for businesses in the State of Florida, and very, very few from my congressional district.

Mr. Chairman, I look forward to the testimony we will hear this morning, and I hope we walk away from the hearing with assurances that this system is going to work as the Congress envisioned when it mandated a small business procurement source data bank.

Thank you, sir.

Mr. BEDELL. Thank you very much.

Mr. Sisisky.

Mr. SISISKY. Thank you, Mr. Chairman.

Mr. BEDELL. Mr. Ray.

Mr. RAY. Nothing, thank you.

Mr. BEDELL. Mr. Boehlert.

Mr. BOEHLERT. Mr. Chairman, I would just like to commend you for having these hearings. We all know the problem; let's get on with the solution.

Mr. BEDELL. Thank you very much.

Before we start, I would like to take just a moment to thank the committee. This committee has just been a tremendous committee to work with, and I want to extend to all of you the appreciation that the chairman has for the way you have cooperated and worked on the various issues that we have had before us.

Our first witness is Mr. Martin Beer of Information Consultants, Inc. Is Mr. Beer here?

Mr. Beer, we have a policy of swearing in our witnesses.

[The witnesses were sworn.]

TESTIMONY OF MARTIN BEER, PRESIDENT, INFORMATION CONSULTANTS, INC., ACCOMPANIED BY DAVID S. COHEN, COUNSEL

Mr. BEER. Mr. Chairman and the committee, I am Martin Beer, president of Information Consultants, a small business that provides computer timesharing services to Government and commercial customers. We are specialists in developing and managing large data bases. ICI is located in Washington.

I appreciate this opportunity to describe my company's experience with the Small Business Administration and the PASS program. PASS is supposed to promote contract awards to small businesses. It is a relatively simple data base now containing over 98,000 small businesses. These companies are potential subcontractors on federally funded projects and contracts.

For over a year, ICI has fought to have SBA compete the operation and maintenance of PASS among legitimate small business firms in accordance with its own regulations. We have scrupulously followed SBA's procedures for correcting abuses in small business set-aside contracts.

Our efforts thus far have been fruitless. Clear evidence exists that SBA improperly awarded a PASS contract to a large business. There is also evidence the large business contractor experienced cost overruns which eventually exceeded 100 percent of the estimated contract price. Despite this evidence, SBA has made no serious effort to conduct a legitimate competitive procurement which could reduce costs and improve performance of PASS. Instead, SBA recently moved PASS to a computer facility at the U.S. Railway Association in circumstances tainted with conflicts of interest and questionable cost justifications.

ICI's experience is a sad commentary on SBA's failure to fulfill its statutory mission. We first became concerned when SBA awarded a contract to operate and maintain PASS on September 22, 1982. The contract was advertised as a 100 percent small business set-aside and was awarded to Executive Resource Associates. ERA's projected costs for fiscal year 1983 were $673,948.

ICI was also a participant in the PASS procurement. We received the highest technical score for offerors in the competitive range. However, ICI's estimated costs were greater than ERA's, although significantly less than the amount ERA eventually billed under the PASS contract.

After awarded, ICI learned that ERA had subcontracted most of the PASS contract work to two large companies which were ineligible to compete for the contract. These companies were AMS and GENASYS. ICI promptly filed a size status protest charging ERA was not a small business because of its contracts with large companies. SBA told us that it considered our protest timely and that the protest "will apply to the procurement in question."

On November 23, 1982, SBA's Philadelphia regional office sustained ICI's protest because of ERA's affiliation with GENASYS.

ERA appealed the regional office's decision and, on February 10, 1983, the SBA Size Appeals Board upheld the regional office's determination that ERA was indeed a large business for the purpose of the PASS contract.

There was now no question that the PASS contract had been improperly awarded to a company which had entered into a joint venture with large businesses. I believed that SBA would correct its mistaken award because it had previously told ICI that our protest would apply to the PASS procurement. Unfortunately, I was wrong.

On March 29, SBA informed ICI that it intended to make no effort to upset ERA's impermissible subcontracts during the term of the contract, through September 30, 1983. In other words, SBA planned to let ERA get away scot free with the contract. I brought SBA's position to the attention of James Sanders, SBA's Administrator, providing him with full documentation regarding ICI's protest and SBA's decision. About a month later, I received a reply from Mr. Turnbull, Associate Deputy Administrator for Resource Management. Mr. Turnbull claimed that SBA's decision to continue the ERA contract was authorized by Federal procurement regulations, but he promised to recompete the contract after its term expired on September 30.

Mr. Turnbull's desire for competition proved very short-lived. In July, ICI learned that the PASS procurement had been put on hold. By letter dated August 31, 1983, Mr. Turnbull officially informed us that SBA had decided to operate PASS at a Government installation. ICI later learned that the organization that was selected was the U.S. Railway Association.

I was disturbed that SBA chose to run PASS at another Government agency instead of supporting small business by contracting out. I was also disturbed that Federal tax dollars were being used to subsidize a Government agency's efforts to compete for Government timesharing contracts, a position at variance with established administration policies. But of even greater concern are some facts that came to light when we received USRA documents under the Freedom of Information Act. When Mr. Turnbull was negotiating with USRA to take over the PASS operation, the Director of USRA and his staff director were attempting to assist three USRA employees in forming a new company. The planned assistance was a contract to manage the USRA computer facility.

PASS promised to provide substantial revenue to any company which manages USRA's computer facility. Other documents which we received show that SBA authorized USRA to spend at least $900,000 in fiscal year 1984 to perform the PASS processing.

I have no evidence that any SBA official was aware of the planned creation of the new firm, the new company by USRA employees. I also have no evidence that USRA employees actually went through with their plans to establish such a company.

But there can be no doubt that USRA pursued the PASS program with the intention of making PASS part of a contract with a newly formed company of former employees. There is also no doubt that SBA has refused to consider a small business alternative to USRA even if the small business offers the same services at a lower cost.

On November 7, I submitted an unsolicited proposal to Mr. Turnbull for ICI to provide all PASS services offered by USRA. ICI's proposal provided a cost savings of at least $85,000 under the amount which SBA has authorized USRA to spend. ICI has offered

SBA the right to cancel at no cost any contract awarded to ICI as soon as a competitive award could be made.

SBA never formally responded to our proposal. I was told verbally by Mr. Turnbull that the proposal would not be considered.

Mr. Chairman, SBA's actions make a mockery of its avowed purpose to promote the interests of small business. SBA has not recompeted the PASS contract after the improper award to ERA. SBA has refused to even consider using a small business to enhance and process PASS during fiscal year 1984. Even more disturbing, the history of our protest shows that SBA will not take meaningful action to enforce its own rules on small business set-aside procurements.

Moreover, the technical problems which have plagued PASS for years are likely to continue. To succeed, PASS must provide current information in a user-friendly environment which will allow for efficient use of contract resources.

A recent GAO study confirms that PASS currently lacks all of these attributes. We have shown SBA how these features can be obtained by enhancing PASS to run under an efficient data base management system. There is no reason why SBA cannot obtain all of these enhancements and run PASS in fiscal year 1984 for less money than it has currently budgeted for USRA.

Instead, SBA has announced that it intends to award a sole-source contract to redesign PASS to run on a minicomputer. The GAO has stated, and we concur, that the selection of a minicomputer is premature and may limit alternatives for user needs. We are not aware of the current status of SBA's plans. However, we believe they should receive a thorough inquiry from this committee.

Mr. Chairman, we hope the committee will take prompt action to correct SBA's improper handling of PASS. We would be pleased to work with you to achieve this result.

This concludes my prepared statement, Mr. Chairman.

Mr. BEDELL. Thank you very much.

Mr. Addabbo.

Mr. ADDABBO. I believe it is a horror story that shouldn't have come about, Mr. Beer, and I commend you for bringing it to the committee's attention.

How long has your company been in the computer business?

Mr. BEER. Thirteen years.

Mr. ADDABBO. Have you had previous dealings with the SBA?

Mr. BEER. Some years ago, a small contract. Not very many. We have dealt with other agencies.

Mr. ADDABBO. After your contact with Mr. Turnbull, you say you haven't received any further reply. Did you call him?

Mr. BEER. Yes, sir.

Mr. ADDABBO. Has he ever returned your call?

Mr. BEER. He does return my calls, sir. He returned my call and said that there was no serious interest in our proposal, which was to take over the USRA operation and convert PASS to the software we use for commercial purposes. We have the American Medical Association data base, and we have some very significant data bases. That is our specialty, large data bases to be distributed to the general public. And I think this fits the kind of PASS distribu-

tion you are interested in, having not only procurement offices, but possibly other people, users, small businesses, as sources.

Mr. ADDABBO. Did you advise Mr. Turnbull of the fact that the information you had received through the Freedom of Information Act relative to the three employees possibly setting up a new company for the purpose of operating this program?

Mr. BEER. We did not. We did not, sir. That recently came to light. That is very recent, sir, in the last couple of weeks.

Mr. ADDABBO. As far as your information is, the ERA was able to complete the full year's contract? When you applied your protest and it was acknowledged by SBA that ERA—what is the name of the outfit?

Mr. BEER. Executive Resource Associates.

Mr. ADDABBO. The small business firm that received the contract for $674,000, were they paid for the full year for that contract? Did they complete that 1-year contract, as far as you know?

Mr. BEER. The GAO report, I think, said that it was pretty close to the end of the year, and they had expended $1.4 million at that time.

Mr. ADDABBO. And as far as you know, SBA brought no action against them whatsoever?

Mr. BEER. No, sir, not to my knowledge.

Mr. ADDABBO. Thank you very much, Mr. Chairman.

Mr. BEDELL. Thank you.

Mr. Olin.

Mr. OLIN. Mr. Beer, I appreciate your willingness to testify here today.

I would like to ask you, your unsolicited proposal in November 1983, could you describe what the scope of that was, what you were proposing to do and about how much money was involved?

Mr. BEER. We had planned to take the existing PASS system, move it on—we have our own computers, we have the computers to do all this—we would move it onto our own computer and essentially patch it up enough for it to run every day, for the current day-to-day use, and as a parallel activity bring it up under our own software, onto the same kind of software used for the AMA and for all of the other things that we do, and have both parallel activities going. As the new software came up, we would back off the other software.

What we had hoped was that, during that period, they would have a full competitive procurement and whoever wins would win, and go on from there.

Mr. OLIN. You would go to them with cost reimbursement for some period of time?

Mr. BEER. It was an interim activity.

Mr. OLIN. Yes.

Mr. BEER. That had a cap of $815,000 for both activities, for both running it and——

Mr. OLIN. What period of time would that cover?

Mr. BEER. For 1 year, sir.

Mr. OLIN. One year. That included the redesign of the system, or the adaptation of it to your equipment, and running it for a year?

Mr. BEER. Correct, sir.

Mr. OLIN. $815,000.

Do you happen to have knowledge about what the SBA is paying the USRA per annum?

Mr. BEER. Well, the authorization is over $900,000. It is $900,000, and there is some other money that we really don't know all about.

Mr. BEDELL. Would the gentleman yield on that?

Mr. OLIN. Sure.

Mr. BEDELL. I think the issue is what the contract says, whether it is an hourly contract or what. I don't think the authorization is the issue. The issue is how it would compare. Do you know that?

Mr. BEER. I don't know. I don't know.

Mr. BEDELL. Would the gentleman yield further?

Was your bid an hourly bid or a total bid or what?

Mr. BEER. Ours was a ceiling bid. It was a fixed fee to do all of the work for the year.

Mr. BEDELL. Regardless of how many hours?

Mr. BEER. Oh, it is an hourly bid up to a ceiling.

Mr. OLIN. That would be at a specified length of time.

Mr. BEER. For 1 year, correct.

Mr. BILIRAKIS. Would the gentleman yield a moment further?

This hourly bid which apparently totals out to approximately $900,000, based on what you just said, is that in addition to the $1.1 million approximately that we have already paid ERA?

Mr. BEER. Yes, sir. Yes, sir.

Mr. BILIRAKIS. Thank you.

Mr. OLIN. You don't have knowledge about what the financial arrangement is with USRA?

Mr. BEER. Just that they were authorized to spend $900,000. I think there was another $200,000 or $300,000 for conversion and some other activities.

Mr. OLIN. OK. Thank you very much.

That is all, Mr. Chairman.

Mr. BEDELL. Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Mr. Beer, I understand that the contract that was let was a cost-plus contract?

Mr. BEER. Cost plus.

Mr. BILIRAKIS. Cost plus, all right. You hesitated there, so you are not familiar with the contract?

Mr. BEER. Yes; I am familiar with the contract.

Mr. BILIRAKIS. You are. OK.

What type of a cost-plus contract was this? Did it have provisions for overruns in it?

Mr. BEER. I don't think so. The normal procurement activity for cost-plus contract.

Mr. BILIRAKIS. All right. But the normal procurement activity has no maximum figure as far as cost overruns are concerned or whatever?

Mr. BEER. Estimated cost has always been on a cost plus. You estimate their estimated cost was $673,000, and the award was based on $673,000. Our estimated cost was slightly over $1 million, and so we didn't win on low cost.

Mr. BILIRAKIS. So what we are saying is we are putting out contracts for bid on a cost-plus basis which can be overrun, and then we are letting the contract to the lowest bidder?

Mr. BEER. Yes, sir.

Mr. BILIRAKIS. That is something else.

Mr. BEER. That is basically what happened.

Mr. BEDELL. Would the gentleman yield?

Mr. BILIRAKIS. Yes, sir.

Mr. BEDELL. You gave an hourly bid. If I were buying something, I would not go by the estimate of anybody, I would go by how the hourly bids compared, I would think.

Mr. BEER. There was a lot of development on that.

Mr. BEDELL. Was your hourly bid lower or higher, or do you know?

Mr. BEER. It was higher. No; not our hourly bid, but the total resource that we thought was needed to do the job.

Mr. BILIRAKIS. So the total hours were higher than theirs on your bid.

Mr. BEER. Correct, sir.

Mr. BILIRAKIS. But were the total dollars tied into those hours also higher?

Mr. BEER. Yes, sir.

Mr. BILIRAKIS. All right, they were.

Mr. BEER. Yes.

Mr. BILIRAKIS. So it seems that the smart thing to do is to bid low, knowing that you can overrun it. And that is exactly what has happened.

Now, your bid was approximately $1.1 million?

Mr. BEER. Correct, sir.

Mr. BILIRAKIS. My understanding is that ERA has already received approximately $1.1 million, and there is no indication as to how much more they may receive; is that correct?

Mr. BEER. I think that——

Mr. BILIRAKIS. I am just referring to this Nation's Business article, December 1983. I don't know.

Mr. BEER. The GAO report said $1.4 million, but their contract has been terminated, as I understand it, and the system is running now at USRA.

Mr. BILIRAKIS. Might there be more money coming into ERA as a result of the contract, even though it has been terminated?

Mr. BEER. I wouldn't think so.

Mr. BILIRAKIS. You don't think so.

Mr. BEER. I don't think so, sir.

Mr. BILIRAKIS. Would you have overrun the contract if you had gotten it at your $1.1 million figure?

Mr. BEER. I don't think so. I am the wrong person to ask.

Mr. BILIRAKIS. You know, this committee is oversight on small business, and we are concerned with, of course, the adverse effect that things like this have on small business. But one of my pet peeves, as the chairman knows, for a long time has been the contracts that the Government lets out and the waste that occurs as a result of that.

Is it a good idea to issue this type of a contract on a cost-plus basis? What if it had been done on a fixed-price basis? Would you have still bid?

Mr. BEER. I would have. I would have bid the exact same amount of money.

Mr. BILIRAKIS. All right. Your $1.1 million bid, was that the cost or did that include the fee?

Mr. BEER. It included everything.

Mr. BILIRAKIS. What kind of a fee was this? Was this a fixed fee, a percentage fee?

Mr. BEER. Yes.

Mr. BILIRAKIS. Yes, meaning what, fixed?

Mr. BEER. It was a fixed fee.

Mr. BILIRAKIS. It was a fixed fee.

Mr. BEER. Of the——

Mr. BILIRAKIS. And your contract included the fee?

Mr. BEER. It included the fee, my $1.1 million.

Mr. BILIRAKIS. Did their contract of $674,000 virtually include the fee?

Mr. BEER. It included the fee as well.

Mr. BILIRAKIS. It included the fee.

Mr. BEER. Yes. Those are comparative numbers.

Mr. BILIRAKIS. Thank you, Mr. Chairman. I will leave it up to you and the others to get into the foundational small business——

Mr. BEDELL. Mr. Sisisky.

Mr. SISISKY. Thank you, Mr. Chairman.

Thank you, Mr. Beer, for appearing here.

I am going to change up a little bit from your testimony. One of the things that I am concerned about, Mr. Chairman, is that if this bid was indeed advertised as a 100-percent small business set-aside. Am I correct in that?

Mr. BEER. That is absolutely correct.

Mr. SISISKY. You charge in your complaint that ERA received the contract, and then, in turn, subcontracted it out to two larger companies——

Mr. BEER. Correct.

Mr. SISISKY [continuing]. That were not small business.

Mr. BEER. Absolutely.

Mr. SISISKY. Absolutely not small business.

You then appealed directly to Mr. Sanders, I think. No, you appealed to SBA's regional office, and your appeal was upheld, that indeed it was subcontracted.

Mr. Chairman, they appealed again to the regional office and, as I understand, that was again upheld. Then you brought your position to both of these appeal processes to the Director of SBA.

Mr. BEER. Correct.

Mr. SISISKY. And nothing happened.

Mr. Chairman, this is where one of the problems is, not just in the bidding process, but indeed in subterfuge, and I would call it that if indeed that is true.

I would ask, Mr. Chairman, whether staff has checked out the Federal procurement regulations to be sure that it was upheld based on those regulations. I guess you can interpret those regulations as you wish also.

Mr. BEDELL. I assume that the SBA said that they had to complete the contract. I assume that is what they told you?

Mr. BEER. Excuse me, sir?

Mr. BEDELL. Did the SBA tell you that, since they had the contract, they needed to complete the contract before they made the change, or what?

Mr. BEER. Something to that effect. Not exactly.

Mr. BEDELL. I think the question is addressed to the staff. Has the staff checked to see whether indeed that is the law or the policy——

Mr. SISISKY. We should check that.

Mr. BEDELL [continuing]. Or whether that is proper.

Mr. BOEHLERT. Would the gentleman yield?

Mr. BEDELL. I think there are two arguments. Of course, if somebody made a big investment in something and received a contract, they ought to phase it out in a manner——

Mr. SISISKY. Not if they did it under subterfuge, in my opinion.

Mr. BEDELL. OK.

Mr. BOEHLERT. Would the gentleman yield?

Mr. SISISKY. Yes; I will yield.

Mr. BOEHLERT. You say here that after you brought this to the attention of Mr. Sanders, you subsequently received a communication from Mr. Turnbull claiming that SBA's decision was to continue the ERA contract. Was that a written communication, and could you provide that communication?

Mr. BEER. We have—that has been reviewed.

Mr. BOEHLERT. Do we have that submitted to the committee for our records? I would like to see that, please. Thank you.

[The SBA decision on this matter is being held in the subcommittee's files.]

Mr. SISISKY. Mr. Chairman, I guess my question should be directed to Mr. Turnbull or someone from the SBA. I just want to get the sequence of facts straight, because to me, this is an abuse of set-asides for small business. They are not really set-asides for small business, but just a way of getting a contract. I think this is an issue we need to look at, Mr. Chairman.

Mr. BEDELL. We could try to get this cleared up. I don't know if the staff can answer it. I am trying to find out from them.

Mr. LEVINE. There is a conflict in the regulations. The regulations state that a small business concern bidding under a small business set-aside must be a small business at the time they solicit the proposal. If they are later found not to be a small business, there are two avenues the SBA can take: They can force them to recertify themselves as a small business, then they would not be eligible for that procurement; or the SBA can decide to leave the contract with that entity at the time.

Mr. BEDELL. They do have——

Mr. SISISKY. They do have that option of leaving the contract.

Mr. BEDELL. That is his question, I think.

Mr. LEVINE. Yes; they have that option.

Mr. BEDELL. Mr. Boehlert.

Mr. BOEHLERT. May I ask counsel what is to prevent this type of thing from happening, though? ERA is a small business; is that correct?

Mr. BEDELL. That is our understanding.

Mr. BERNO. For other purposes, yes.

Mr. BOEHLERT. For other purposes. They subcontracted to big business. What prevents that? Is there anything that prevents that in the regulations, the subcontracting?

Mr. BEDELL. My understanding is that, indeed, if at the time it is—well, staff better answer.

Mr. LEVINE. The regulation states, concern must be a small business concern at the time of the opening of bids or the closing date for the submission of initial offers and at the time of award in order for it to be eligible for preference which requires status as a small business concern.

Mr. BEDELL. That doesn't answer his question.

Mr. BOEHLERT. That doesn't answer my question, because ERA qualified then; am I correct?

Mr. BEDELL. That is correct.

Mr. BOEHLERT. They qualified then.

What do the regulations say about subsequent subcontracting.

Mr. LEVINE. The SBA's size decision, the Size Appeals Board, determined that the entity that proposed the bid at the time was not a small business by affiliation.

Mr. BEDELL. But he still hasn't had an answer to his question. We understand that that is what happened. His question specifically, if I understand it is, "What are the rules and regulations of a small business getting a contract and then subcontracting a large part of that business to a big business?" Can anybody answer that?

Mr. PILIERO. If I may, Mr. Chairman.

Mr. BEDELL. Would you identify yourself.

Mr. PILIERO. Yes, Mr. Chairman. My name is Piliero. I am counsel for ERA. We will be testifying next.

The simple answer to your question is that many small businesses would not be able to bid on contracts if they could not get the assistance of larger businesses. In fact, there is a rule prohibiting that they subcontract out more than 45 percent of the work. So that, in this case, it was identified that there would be the assistance needed for computer hardware processing of a firm, but that it would not be over a certain level.

Mr. BILIRAKIS. It was identified when, at the time of the looking, at the bidding?

Mr. PILIERO. Yes, Mr. Congressman. When it was identified, sir, it was suggested that it would be in a numerical proportion which would be well below the 45 percent. In fact, the reason that contract overran was not money that ERA received, but because of poor software the processing was required to be gone through more and more——

Mr. BEDELL. I don't think we want to get into that at this time.

Mr. PILIERO. Over the level.

Mr. BEDELL. Apparently the ruling by SBA is that, as long as they do not contract out for more than 45 percent——

Mr. PILIERO. Then it can be waived as well, Mr. Chairman. But without waiver, they could——

Mr. BEDELL. Who can waive it?

Mr. PILIERO. SBA. In this case, that was not necessary.

Mr. BEDELL. I guess the concern that some of us on the committee would have, and we are trying to see——

Mr. PILIERO. From a regulatory point of view——

Mr. BEDELL. I think you should probably retire. You are going to be on here in a little bit.

Mr. SISISKY. Mr. Chairman, was it a joint venture that got the—excuse me.

Mr. BEDELL. I think it was ruled in this case that it was. I think, if I understand it correctly, that the people who reviewed it, rightly or wrongly, decided that, in their opinion, it was to be a joint venture between ERA and GENASYS, I guess.

Mr. PILIERO. We will be happy to comment on that later.

Mr. COHEN. If we could just add two small pieces of clarification. My name is David Cohen, outside counsel for ICI.

SBA does have certain rules on the form that arrangements with large businesses and small businesses must take. And they prohibit certain types of joint ventures, which the GENASYS contract was found to be. And that was the other contract besides the one that ERA's counsel just described.

The other point, which I think was of more concern to ICI, is that we filed our protest on October 4 and, on October 27, the Philadelphia regional office sent us a letter that said, among other things, that our protest was considered timely and will apply to the procurement in question.

Now what does the phrase "will apply to the procurement" mean if you are not going to take the decision of the SBA Size Appeals Board and the Philadelphia regional office and act on it? That is our concern.

Mr. SISISKY. It doesn't mean anything.

Mr. BOEHLERT. It is a shared concern.

Mr. BEDELL. Would the gentleman yield?

I think the legitimate concern that this committee should have is not just this particular situation, but I think it is right for us to be concerned if indeed the rules are such that a big corporation could go to a small corporation and say you bid on this as a small business and, if you bid on it, you can give us the majority of the work in there. Now, if the small business contracts are no more than 45 percent, that may be adequate. However, I think this program is meant to be something to help small business, and I think it is legitimate for our committee to be concerned as to whether that is the way it is working or not.

Thank you.

Mr. BOEHLERT. Exactly. Mr. Chairman, we are going to hear later on this morning from representatives of SBA, aren't we?

Mr. BEDELL. Yes.

Mr. BOEHLERT. All right, fine. No questions.

Mr. ADDABBO. Would the gentleman yield?

Mr. BEDELL. I would be glad to yield.

Mr. ADDABBO. From what I can gather at this point in time, ERA, when they first obtained the contract, was a small business, but then they evolved into a joint venture—it was found to be a joint venture rather than just a small business set-aside; is that correct?

Mr. COHEN. I think the record shows that the joint venture was in place at the time of award.

Mr. ADDABBO. Immediately?

Mr. COHEN. Prior to award, I think.

Mr. ADDABBO. In other words, there was almost a fraud then? In other words, if it was a set-aside for a small business and actually they bid as a joint venture, then there might even be a fraud here. I think this thing should be further investigated as a possible fraud. I think it is inexcusable for the SBA to become a party to that fraud, knowing it. As you were saying, how long had the contract been in effect when the Philadelphia regional office acknowledged that your protest was timely?

Mr. COHEN. It had been in effect for a little over a month at the time the Philadelphia regional office acknowledged the protest was timely. It had been in effect approximately 2 months when the Philadelphia regional office issued its decision.

Mr. ADDABBO. So then they benefited for an additional 8 months after the SBA had determined that this was a joint venture in direct violation of all regulations, but SBA still felt a waiver was in order and still continued to pay it.

Mr. Chairman, this thing, I think, warrants further investigation.

Mr. BEDELL. Mr. Ray.

Mr. RAY. Thank you, Mr. Chairman.

Mr. Beer, thank you for testifying this morning.

I have just a couple of questions. You indicated that you had a small business contract some years ago, a contract with small business. How many years ago was that?

Mr. BEER. Well, they were part of another contract. We did work with them.

Mr. RAY. No direct contract?

Mr. BEER. No direct work with SBA.

Mr. RAY. It was satisfactory?

Mr. BEER. Yes; it was satisfactory. Yes, sir.

Mr. RAY. Did your recent proposal—which you didn't win—did it follow the specific guidelines or did you modify it to some degree when you submitted it? I mean, when you made your proposal, did it follow the specific guidelines of the proposal, or did you modify it?

Mr. BEER. We were responsive.

Mr. RAY. I see.

Mr. BEER. We were responsive.

Mr. RAY. Just for the record, how big is your company? How many employees do you have?

Mr. BEER. At the time, we had about 45 employees; now we have approximately 60 employees.

Mr. RAY. Not joint venturing with anybody?

Mr. BEER. No, sir.

Mr. RAY. Thank you, sir.

Mr. BEDELL. Mr. Schaefer.

Mr. SCHAEFER. Mr. Beer, just a couple of questions. What is your definition of small business, and do you think that that differs from the SBA's definition?

Mr. BEER. The rules for a small business—and we have been one for 13 years—for our product line is $4 million, an average of less than $4 million for the last 3 years. So, if you accumulated more than $12 million over the last 3 years, you are not considered to be

a small business. And I think there is a number of employees, too. Is it 500?

What applies to us for our product line is a maximum of $4 million.

Mr. SCHAEFER. Does that coincide with SBA's approval?

Mr. BEER. Yes, sir.

Mr. SCHAEFER. Is it your estimation that ERA was a small business or not?

Mr. BEER. There are some serious questions. Well, for this procurement, they obviously weren't because of the joint venture. They were partners with a large company, a well-known large company. So, when you become partners, then you are no longer a small business. That was for that procurement. There is probably some question whether they really are.

Mr. SCHAEFER. So, in and themselves——

Mr. BEER. In and themselves, there is probably some question whether they are.

Mr. SCHAEFER. Even without the partnership?

Mr. BEER. Even without the partnership.

Mr. SCHAEFER. Thank you, Mr. Chairman.

Mr. BEDELL. Thank you.

Mr. Conte.

Mr. CONTE. Thank you, Mr. Chairman.

Mr. Beer, your story is certainly an interesting one. If you were sitting over on this side of the table as a Member of Congress charged with the duty to oversee the operation of the Small Business Administration, what would you do about the situation?

Mr. BEER. I think I would let small businesses know in this country that there is a legitimate bidding process that is blindfolded, that is purely objective, that a small business can come in and really compete and win.

We are angry because we are technically qualified and, in fact, of those who got through into the finals, we were No. 1. We have the qualifications; that is our specialty. We knew the work because we had done some previous work there.

So it is really questionable whether it is really an objective procurement process. I think it has to be monitored very closely, sir, very closely, so that small businesses—we are in Washington, and we have access to all the things the people in Washington have. We pursued this every way we know how to pursue it. What would happen to somebody in Ohio or California who has to fly in, a small business who has to fly in here and spend a very expensive weekend here trying to get some people to represent them? I just can't imagine them being successful here.

That is what I am protesting about, not losing—we lost a lot of contracts. We lose a lot, we win a few; what I am saying here is the process needs a very close scrutiny, sir.

Mr. CONTE. What is your opinion of the DEC 20 system in relation to the state-of-the-art computer hardware system? Is it fairly close to the state of the art, or is it so old that it is starting to be bypassed?

Mr. BEER. The equipment that PASS is being run on as Digital says, will be winding down over the next 10 years. That is correct, sir. It will be winding down. That is what it currently runs on.

Mr. CONTE. Now, the bid you submitted to the SBA was ranked second, technically, but was the most expensive. Have other bids that you submitted to Federal agencies been ranked that way? In other words, were you surprised that you lost the bid?

Mr. BEER. The company that was ranked first was the incumbent, and they were a large business, so they were immediately eliminated. We were No. 1 of those who were small businesses.

Mr. BILIRAKIS. Excuse me, would the gentleman yield?

Mr. CONTE. Sure.

Mr. BILIRAKIS. What do you mean by the incumbent?

Mr. BEER. There was a previous company that developed it and ran it for 3 or 4 years. And this was a recompete that we bid on.

Mr. BILIRAKIS. In other words, the previous company ran it from 1977?

Mr. BEER. Something like that. I am not exactly sure of the year.

Mr. BILIRAKIS. It was a large business?

Mr. BEER. They became a large business. I think they might have been a small business at the time they started the contract, but became a large business over the years and exceeded the amount.

Mr. BILIRAKIS. Thank you.

Mr. BEER. They bid on it again. They were considered technically No. 1. We were just behind them. But they were eliminated because they were a large business. So we were No. 1; there was another company in between ourselves, and ERA. ERA was fourth, according to some documentation we have here.

Mr. CONTE. Were you surprised that you lost the bid?

Mr. BEER. Yes. Yes, we were. We were surprised.

I think that it is a very low-ball bid. We did previous work for SBA on this program. We did an evaluation approximately 6 months before of this software, and we knew exactly what needed to be done to it. We were surprised that it went at that price. That is an awfully low price, and we just couldn't imagine the work could be done for that.

Mr. CONTE. How did you first come across the knowledge that the Executive Resources may not be a small business?

Mr. BEER. Well, we were told who their partners were. Their partners are both very large, well-known companies in Washington. AMS is across the river, you see that sign up on a large building. You know that they don't own a full floor like we have in one building. They have a large building. They are a large company. GENASYS is a large company as well. They are both large businesses. So, we challenged them and then, when the documents came out, it was proven.

Mr. CONTE. Thank you, Mr. Beer.

Mr. BEER. Thank you.

Mr. CONTE. Thank you, Mr. Chairman.

Mr. BEDELL. Thank you.

Mr. SISISKY. Mr. Chairman.

Mr. BEDELL. Go ahead, Mr. Sisisky.

Mr. SISISKY. Are you ready to dismiss the witnesses?

Mr. BEDELL. No. I was going to ask a few questions, but go ahead.

Mr. SISISKY. No; that is all right. You go ahead. I was going to ask another question.

Mr. BEDELL. What is your volume, Mr. Beer, last year billings?

Mr. BEER. Last year, we billed $6 million.

Mr. BEDELL. So you are right up close to the limit of small business, as well; is that right?

Mr. BEER. We are down some this year. We are probably down about $4½ million this year, but we are close.

Mr. BEDELL. But if you stay there, you will be above the small business limit?

Mr. BEER. We may be on our average.

Mr. BEDELL. $4 million is apparently the limit in the average over 3 years.

Mr. BEER. Over 3 years, yes. We are close to the line.

Mr. BEDELL. You had a contract that you said was a fixed price. I assume your contract said so much for this job, so much per hour for the computer time and this sort of thing; is that right?

Mr. BEER. That is correct. We were asked to estimate how many hours it would take to repair the software and how many hours it would take to run this and how many hours it would take to do that. The specifications that went out on the RFP said here is what you have to do, and we bid on that work.

Mr. BEDELL. OK. It seems to me that for us to just say that the estimates are the only thing to consider in price is questionable. I think that if I were buying it, I would be concerned about what the hourly costs were for each of the proposals and what the software cost was going to be individually, rather than just how much somebody guessed the whole thing would cost. So it would be helpful if we could get that whole thing.

What was the date when you were advised that the procurement was put on hold after ERA had been disqualified? Do you know?

Mr. BEER. Late June or early July, sir.

Mr. BEDELL. You are quite certain of that? It is fairly critical.

Mr. BEER. We have that. They advertised. When they did advertise it in the CBD notice that they were going to recompete it, and then it never came out.

Mr. BEDELL. My understanding is they advised they would recompete, and then you were advised at a later date that it would not be recompeted; is that right?

Mr. COHEN. Yes.

Mr. BEDELL. The concern I have is the date at which you were told it would not be recompeted.

Mr. COHEN. Mr. Chairman, I don't believe we have the precise date. The Commerce Business Daily announcement of the reprocurement was dated June 23.

Mr. BEDELL. Yes.

Mr. COHEN. That the RFP would be available on or about June 29. Sometime between June 29, when the RFP did not come out, and July 8, we wrote Mr. Turnbull to express our concern that the procurement had been put on hold.

Mr. BEDELL. It was prior to July 8?

Mr. COHEN. Yes; at some point prior to July 8.

Mr. BEDELL. That is all we need. OK.

In your opinion, do you have any way to evaluate how USRA is doing the job now?

Mr. BEER. We don't know, sir.

Mr. BEDELL. You don't know at all?

Mr. BEER. We do not know, sir.

Mr. BEDELL. Mr. Sisisky.

Mr. SISISKY. I was just going to ask you about the USRA. You talked about the Freedom of Information Act. I am a little confused. In your testimony, I think you said that you found out that the USRA was going to spinoff that total computer operations and form a new company?

Mr. BEER. Yes, sir.

Mr. SISISKY. Instead of a Government agency doing it, they were going to use their own employees to do it with the full knowledge of the Director of the USRA; is this correct?

Mr. BEER. We have documents that say that, sir.

Mr. SISISKY. You have documents——

Mr. BEDELL. Would the gentleman yield on that?

Mr. SISISKY. I would be glad to.

Mr. BEDELL. I think what we find is that that was their intent, that they were told they couldn't do that. So that plan was dropped.

Mr. SISISKY. Mr. Chairman, what it has to do with this contract is that they thought they could do it at that time. That is what is pertinent to this fact.

But I want to get back to the contract a little bit. I am a little confused.

Mr. BEER. Yes, sir.

Mr. SISISKY. You have a flat fee; is that right? You bid a flat fee?

Mr. BEER. That is correct, sir.

Mr. SISISKY. Does that include so many hours of work or is that just to buy your services? How does that work?

Mr. BEER. The way this kind of contract operated was you are given a set of specifications, and they said here is what we want done, and here is how many hours of search time we are going to use. Numbers have to be put into the RFP so they can evaluate it. We are going to have outside searchers who are going to use the system. Procurement officers are going to use it 2,000 hours a year. And we are also going to expect you to put in 50,000 new records into the system. Those kinds of quantities appear in there. Then you are asked to give hours, hours in computer time, that it would take to do these jobs with rates on them.

The way it was evaluated, and the way most of these contracts are evaluated, is to just take your total cost, not really go into item by item.

Mr. SISISKY. So you are overrun, if you are slow, you get your hourly rate for your excess; is that correct?

Mr. BEER. Well——

Mr. SISISKY. Or if you get new jobs——

Mr. BEER. I mean, you do have to tell a heck of a story to get more than what you bid.

Mr. SISISKY. You do have to do that.

Mr. BEER. Normally, you have to tell one heck of a story and have all kinds of justifications.

Mr. SISISKY. Well, it must be a heck of a story when you go over 100 percent.

Mr. BEER. Over 100 percent is——

Mr. SISISKY. That is a heck of a story. I don't think I see that in private business too much.

Mr. BEER. No, sir. No, sir.

Mr. SISISKY. You would have a heck of a story to collect from me, I can tell you.

Mr. BEER. It would be hard.

Mr. BEDELL. Any further questions?

If not, we appreciate very much your testimony, Mr. Beer.

Mr. BEER. Thank you, Mr. Chairman.

Our next witness is Mr. Gordon Yamada, Executive Resources Association, accompanied by his counsel, Daniel J. Piliero.

[The witnesses were sworn.]

TESTIMONY OF GORDON T. YAMADA, PRESIDENT, EXECUTIVE RESOURCE ASSOCIATES, INC., ACCOMPANIED BY DANIEL J. PILIERO II, COUNSEL

Mr. PILIERO. Good morning, Mr. Chairman. My name is Piliero, counsel for Mr. Yamada. Mr. Yamada has a prepared statement.

Some of the issues and questions which have been raised we would like to shed some light on. But I think it would be more appropriate and orderly, if you agree, Mr. Chairman, that he go forward with his prepared statement, and then we will respond to some of the issues.

Mr. BEDELL. All right.

Mr. PILIERO. Thank you.

Mr. YAMADA. Mr. Chairman and members of the committee, I am very happy to be here this morning to shed light on any matters on PASS, my company, or whatever other matters you wish to pursue. My basic desire is to be of assistance to this committee.

I have a prepared statement. I find it extremely distasteful to air my personal background in public, but I find it necessary because of certain publications and other articles that have appeared on the press that have attacked—or have made innuendos on my racial background.

Mr. BEDELL. You may proceed as you so wish.

Mr. YAMADA. Yes, sir.

My name is Gordon T. Yamada.

My parents immigrated from Japan to the United States prior to 1920. I was born and raised in Los Angeles, Calif. In 1942, during my freshman year at UCLA, I was forced to terminate schooling, and my family was ordered by the U.S. Government to be interned at a detention center in Manzanar, Calif., because of our ancestry. At the time, my family owned a large nursery in West Los Angeles, Calif. We were forced to abandon it and our home, and lost everything we owned. I was classified 1-A draft status at that time. I remained in the detention center from 1942 to 1944.

I was drafted into the U.S. Army in 1944 and, after completing basic training and military intelligence training, I served in Japan as a member of the Allied Occupation Forces in both a military and civilian capacity. During the period 1948-51, I served in headquarters SCAP commanded by General MacArthur. I was assigned in Japan until 1956, at which time I transferred with the U.S. Air Force to Hawaii. I remained as a civil servant with the Federal

Government for 30 years, and served in a variety of positions until 1977.

I have been a resident of Arlington, Va., since 1962 to the present time.

During the 1977–78 period, I founded a management consulting company in Arlington, Va., called Executive Resource Associates, Inc. I am the organizer, president, chairman of the board, major stockholder, and have full operational control of my company. The only other stockholder is my executive vice president, who is a native-born American.

There have been remarks made in a recent periodical containing extremely misleading statements and racial innuendos. I state the following for the record:

Executive Resource Associates, Inc., is solely controlled and operated by me. There is no other domestic or foreign company which has any ownership or control of the company or representation on the board of directors. We are a minority-owned small business in every definition of the word, and engaged in management consulting activities with domestic and foreign clients. At this time, the bulk of our work is for the U.S. Government. We operate under the jurisdiction of the Small Business Administration, to whom we regularly furnish our business plan, financials, and other operating information. Our company is presently, and has always been, in compliance with all appropriate SBA rules and regulations.

Our company competed with a number of other firms during 1982 in pursuit of the SBA PASS contract. We were pleased to win this competition in September 1982. Our job was to operate and maintain the system using the Government-furnished software which was developed by another contractor.

The specific tasks we were required to perform under the PASS contract included the following: Document control, data entry, quality control, production control, hotline desk for operational control, PASS user training, operations control, hardware and maintenance control, label production, directory production, system security, mail, and distribution functions. That is the PASS program.

We commenced work on the project in September 1982. During the ensuing months, we worked closely with the SBA staff to bring the PASS system on line. We had excellent relationships with SBA management, and worked in particular with the SBA central office procurement staff.

Unfortunately, some of the Government-furnished software we were required to use consumed more computer time than we had originally anticipated, thereby raising the cost of running the computer which was being done by a computer services vendor. As a result, computer operations costs increased beyond our original estimate. We undertook at our own expense to eliminate the problem of the Government-furnished software by developing a $50,000 alternative software package which basically eliminated all of the slow computer running.

During this same period of 1982 and 1983, based upon a size standard protest by a loser in the PASS competition, SBA requested and received information with reference to the size of ERA. SBA found that ERA, by itself, meets the test of average annual receipts

for the 3 preceding fiscal years not exceeding $4 million. Our total at that time was $2.3 million. In recognition of the need to obtain skills not available within its own organization, ERA had entered into a teaming agreement with GENASYS, another computer consulting firm slightly larger than ERA, to develop a proposal which, if successful, would result in a subcontract from ERA to GENASYS—GENASYS' total was about something over $4 million, maybe $5 million, or something of that sort—it was clearly understood from the beginning that the teaming agreement was very preliminary and to be totally superseded by the subcontract. This subcontract relationship was fully described in the ERA proposal to SBA before the contract award. The subcontract was subsequently awarded to GENASYS by ERA. Unfortunately, during the size appeal, SBA did not agree with ERA's interpretation with regard to the GENASYS subcontract, and found ERA other than small for the purposes of the PASS contract only, because of the teaming agreement between the two companies. At the same time, SBA examined ERA's relationship to all other companies with which it does business, and found no other relationship affected ERA's size.

Because of the result of the ruling, SBA elected not to exercise the option years of the contract, and it was a 5-year contract. It was a 1-year plus 4-year option. We did not receive the 4 years of the contract, and our contractual work on PASS ended on September 30, 1983, after only 1 year.

That concludes my statement, and I would be pleased to respond to any questions at this time.

Mr. PILIERO. Mr. Chairman, if I may, there was one issue which Mr. Sisisky raised which I think we could amplify, if we might, and I think some testimony here a moment ago is relevant. On the question of an overrun, I agree with you, sir, if in any business it overruns 100 percent, there is something wrong.

Frankly, in our view, the person who did the evaluation of the software, the witness who was here previously, had an unacceptable advantage to all of the bidders. He may have thought that it was $1.1 million that should have been put in the contract, but that information was not known when the bid proposals went out. When ERA went forward saying it thought it could do the job for some $600,000 it was assuming that the software worked properly. The contractor who had the contract previously apparently—and I cannot say this with informed knowledge with citations to cases—apparently there had been great irregularities with that contractor which were not known to the SBA even at that time.

I am informed, and I will try to supplement the record, that those people may be not only under investigation, but indictment, and that their business practices perhaps were less than they should have been.

So only Mr. Beer, apparently, knew that the software was inadequate, which is why Mr. Beer said $1.1 million is my bid. We didn't know that, nor did the other bidders. He was No. 11 in price. We weren't low-balling anything. Everybody assumed that, with good software, $600,000-and-something—he came in second in the competition in technical. He was 11th, or the absolute last, in money, because he had an unfair advantage. He had been paid to evaluate the software; we hadn't. So we bid what we thought legiti-

mately was a decent price. We didn't benefit from the overrun. It went to the people who were the vendors for the computer hardware support services.

As far as the teaming agreement was concerned, that teaming agreement was reviewed by SBA. The opinion is here. It is a very narrow legal question as to whether or not a $4 million business which joins together to make a proposal with another small business then becomes a joint venture because they are affiliated.

Mr. Yamada is not a disreputable businessman. He has been besmirched unfairly, in our view, in the Nation's Business article. This man has 30 years of Government service. There may well be a problem in the PASS system, and it may well be that we could run that system better, and it may well be it could be managed better. But this man, if he comes out of this hearing with less than a proper reputation, which he deserves, will have been a disservice by this committee, in my view.

I appreciate the indulgence of the Chair. Thank you.

Mr. BEDELL. I might tell you it is not our purpose to affect anybody's reputation. That is certainly not the purpose of any committee I am chairing.

Mr. PILIERO. Thank you, Mr. Chairman.

Mr. BEDELL. We do have a legitimate oversight responsibility as to how the SBA is handling its affairs and, apparently what has happened in this case reflects upon that somewhat, and I think it is important for this committee to dig into it to find out what happened.

Mr. PILIERO. Thank you. We are committed to providing you with all of the information, but we feel that the innuendos that have been flowing are not necessarily properly directed to ERA.

Mr. BEDELL. OK. As chairman, I can only tell you that I think our job is to try to get to the facts and find out if the system works, what problems there may be, if any, and that is why we have you here to testify.

Mr. PILIERO. Thank you, sir.

Mr. BEDELL. Mr. Olin.

Mr. OLIN. Mr. Chairman, thank you.

Mr. Yamada, I would like to get this straight. What was the nature of your contract with SBA? You had a $600,000-or-so contract.

Mr. YAMADA. Yes, sir.

Mr. OLIN. What was the nature of the contract? What did you agree to.

Mr. YAMADA. Yes, sir. We had a cost-plus, fixed-fee contract with the SBA as a result of the September award, and our award was something on the order of $680,000. Our fixed fee was 6 percent.

Mr. OLIN. Six percent?

Mr. YAMADA. Yes, sir.

Mr. OLIN. Of your bid?

Mr. YAMADA. Yes, sir.

Mr. OLIN. Six percent of $600,000, whatever it was?

Mr. YAMADA. Yes, sir.

Mr. OLIN. So, actually, the $600,000 contract was merely an estimate.

Mr. YAMADA. No, sir, it was——

Mr. OLIN. It had no binding aspects?

Mr. YAMADA. Yes, sir. Unfortunately, the previous contractor who had this for the last 4 years or 5 years, the one who designed it, did not provide all the documentation that is normally necessary in this kind of work. Our previous testifier, his company was asked by SBA to evaluate the software. He received all of the tapes and everything to evaluate the software. We did not have that opportunity.

Mr. OLIN. Then the—excuse me, go ahead.

Mr. YAMADA. Therefore, there is a discrepancy, as you have heard, with respect to the final prices.

Mr. OLIN. From the point of view of SBA on granting you the contract, they said you are the low bidder, but that was only because your estimate was the lowest estimate.

Mr. YAMADA. Yes, sir, based on the——

Mr. OLIN. It didn't have any impact. They had to really evaluate your capability and qualifications to do the job.

Mr. YAMADA. Yes, sir.

Mr. OLIN. They had to evaluate your judgment in order to give you the contract.

Mr. YAMADA. Yes, sir, but normally in any Government contract, the Government provides a lot of information on which you design your cost. We received that kind of information, such as it was, from SBA, and all of the competitors did the same thing. They came up with the best possible approach.

Mr. OLIN. Your claim is that ICI had information that wasn't available to the other bidders.

Mr. YAMADA. Absolutely.

Mr. OLIN. We can look into that.

What were your qualifications for taking this job?

Mr. YAMADA. At the time, sir, our company was grossing 3 preceding years $2.3 million. We had approximately—I would have to guess—about 50 persons onboard at Crystal City. We had done a number of Government contracts. The background of almost everyone in my company is computer oriented. My personal background is 25 years in computer technology. We are fully qualified for that.

Mr. OLIN. You have been in business for about 5 years?

Mr. YAMADA. Yes, sir.

Mr. OLIN. Four years?

Mr. YAMADA. At the time, it was only about 3 years.

Mr. OLIN. Three years.

Mr. YAMADA. Yes, sir.

Mr. OLIN. Had you had contracts of this magnitude?

Mr. YAMADA. Yes, sir, in other Government agencies.

Mr. OLIN. Of similar type?

Mr. YAMADA. Similar type, yes, sir.

Mr. OLIN. When you began to overrun—you have given some indications for the reasons for overrunning—what did the SBA require of you in terms of the justification for additional payments?

Mr. YAMADA. Extensive justification. SBA, as any Government agency, wants to know all the details, and we have extensive documentation that supported our view. As we got into the contract, we found great software inefficiencies, lack of technical documentation, and these came to light as we got into the contract after sev-

eral months. I believe it was 2 months after we received the contract, we made an extensive report to SBA, around November 1982, explaining some of the difficulties we were having with the software.

Mr. OLIN. Did SBA at any point deny any of your requests for overcharges, or did they accept them all?

Mr. YAMADA. No, sir, I don't believe so. They examined all of our documentation and checked it all out.

Mr. OLIN. They paid you everything you requested?

Mr. YAMADA. No, sir. But all of our billings are in. So the previous question of what is the cost of this contract, it is on the order of $1.4 million total.

Mr. OLIN. GAO says $1.4 million. The $1.4 million includes all of the billing that you have rendered?

Mr. YAMADA. Yes, sir. We submitted everything today.

Mr. OLIN. But you don't have all the money yet.

Mr. YAMADA. No, sir.

Mr. OLIN. Mr. Yamada, on the subject of the teaming agreement, you have talked about your agreement with GENASYS. A previous witness talked about the agreement with two companies.

Mr. YAMADA. Yes, sir.

Mr. OLIN. AMS, I believe.

Mr. YAMADA. Yes, sir. I think that there are some misleading statements being made to the subcommittee. I would like to clear that right now.

It is customary that, when a small company like ours—we don't have access to a $500,000 computer sitting in the backroom or anything of that sort. So a software company like ours, when it goes out for Government business, or any commercial business or anything, requires computer backup, which we do in almost everything we do. We go to another company, like a utility company—like buying electricity, buying water—we buy computer energy. And this AMS happens to have a company in Rosslyn that came in lowest with all of the costs that we could find at the time with regard to buying computer hardware energy, and that is what we did with AMS. So they are a supplier of services. It is a big mistake to call them a subcontractor.

Mr. OLIN. Did I get their name right? This is AM what?

Mr. YAMADA. Yes, sir. AMS, yes, sir.

Mr. OLIN. Yes; AMS.

What was the nature of your agreement with them?

Mr. YAMADA. The nature of the agreement, I have the computer services contract with me. I would be happy to provide a copy to the committee. The nature of our arrangement is to buy computer time from them, just as we would buy water or electricity or anything of that sort.

Mr. OLIN. That was computer time——

Mr. YAMADA. Computer services.

Mr. OLIN [continuing]. Of their computers?

Mr. YAMADA. Yes, sir. They are vendors of computer services.

The nature of our agreement with GENASYS, was that of a prime and subcontractor. Unfortunately, the definition—or the ruling by SBA—was that because of some preliminary papers wherein we had a teaming agreement with another company, the

revenues of both companies had to be combined. Of course, the revenue of both companies exceeded the $4 million size limit. But at the time, we made an agreement with them, which we thought was properly worded and legally OK and that sort of thing, and we called it a teaming agreement.

Mr. OLIN. What is the difference between teaming and partnership?

Mr. YAMADA. Well, that is where the big definition thing is, sir, and I think I learned my lesson from this entire case. I will be very careful about teaming agreements, and I will have to engage a lawyer, which we couldn't afford in those days, like Mr. Piliero.

Mr. OLIN. You are maintaining that the GENASYS understanding was——

Mr. YAMADA. Is a subcontract.

Mr. OLIN. A borderline of being a——

Mr. YAMADA. It was defined as an affiliation equals a joint venture, ergo, our company revenues and GENASYS' revenues exceeded the $4 million, for a total of $6 million or whatever.

Mr. OLIN. Did they contribute to software production? They were involved in creating the software?

Mr. YAMADA. They were in production control. They were doing the production control work of the items I mention in my testimony. They did one part.

May the record show, sir, that the total amount of money that GENASYS received from the $1.4 million is $150,000. So any innuendo that they were big business and controlling the contract, that is totally false.

Mr. OLIN. They did assume some risk on the——

Mr. YAMADA. No, sir. They were a subcontractor. We assumed all the risk. We were responsible for the contract to SBA.

Mr. OLIN. Why didn't you mention AMS when you were submitting your bid for this job?

Mr. YAMADA. They were a supplier of computer time.

Mr. OLIN. I see. Why didn't you mention that to SBA? You made a point of mentioning this agreement with GENASYS, that you were going to have a farm-out arrangement.

Mr. YAMADA. It was all in our proposal that we submitted.

Mr. PILIERO. Mr. Olin, I think——

Mr. OLIN. One of the questions here now is whether your whole situation was misrepresented or whether it wasn't. It is one of the crucial points.

Mr. PILIERO. Mr. Olin, I think the assumption of your question is one with which the witness would not agree. Perhaps if you would state it again, or I can clarify what you have said.

When you bid, did the SBA know that GENASYS would be providing some service and AMS would be providing the computer support—it would have to be because ERA did not have the type of computers required.

Mr. OLIN. Your testimony said that you informed them of your proposed agreement with GENASYS, but nobody else.

Mr. PILIERO. Sir, that only referred to the allegation of the SBA. In writing testimony, we were addressing, sir—interestingly, even the contracting officer initially told us the GENASYS agreement—told Mr. Yamada the GENASYS agreement was not the problem.

He was addressing only the issue which ultimately was found to be the defect. When he put his bid in, AMS was disclosed as the vendor who would sell the computer through which the processing took place.

Mr. OLIN. You maintain that your whole plan for executing this contract was made known to SBA in the beginning?

Mr. PILIERO. It has been so documented, and your staff is aware of that, sir.

Mr. BEDELL. Would the gentleman yield?

Mr. PILIERO. Yes.

Mr. BEDELL. And that included your plan to buy this from AMS?

Mr. PILIERO. Oh, yes.

Mr. BEDELL. Specifically from that firm?

Mr. YAMADA. Yes. It is all in the proposal, sir.

Mr. PILIERO. And the committee has it in its files?

Mr. YAMADA. The committee has copies of all of it.

Mr. BEDELL. But it said it would be AMS from whom you would buy that other service?

Mr. YAMADA. Yes, sir. Yes, sir.

Mr. OLIN. Why do you think your contract was canceled at the end of 1 year?

Mr. YAMADA. Because, unfortunately, this teaming agreement was viewed that we had an affiliation as opposed to a subcontract arrangement with GENASYS. We argued that and appealed it, but we lost the appeal.

Mr. OLIN. You don't think the loss of the contract had anything to do with the cost overrun?

Mr. YAMADA. No, sir. I think we have fully documented that the software was less than perfect, and it required the computers to run considerable time to process the information.

Mr. OLIN. Mr. Chairman, I think I ought to yield to someone else at this point.

Mr. BEDELL. Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Mr. Yamada, going back to the 45-percent limitation in terms of subcontracting——

Mr. YAMADA. Yes, sir.

Mr. PILIERO. May I clarify that? That is for an 8(a) firm, and that is a correct statement of the rule.

With respect to firms which are not competing in an 8(a) environment—although this company is a minority firm—the rule apparently, the judgment of the contracting officer—and I would like you, if you would, Mr. Bilirakis, to allow me to have the Small Business Administration further amplify the difference between the 8(a) rule from the basic rule.

Mr. BILIRAKIS. So what we are saying is that 45 percent then was not applicable in this case?

Mr. PILIERO. Not applicable in this case. But that the rule under which 8(a) firms, such as this firm, would apply. There are other rules which apply. I am not sure that a number is specifically given, but each contract is evaluated by the SBA, and the proposal must be put forth as to precisely which percentage of who is going to be doing what. We did put that forward in our agreement.

But you are going to the issue of whether somebody can use a small firm to acquire business, and we certainly want to respond to that. We were clearly properly within the regulations when we said we had to buy the computer services of AMS and we would be using GENASYS to provide some of the services. In fact, the contracting officer found it was appropriate later based on documentation—not written by lawyers, but written by two businessmen—the Size Appeal Board to appeals level later said it is a close question, but the two firms together are more than the $4 million standard. The limit is $4 million for this; you lose.

Mr. BILIRAKIS. All right.

Mr. PILIERO. That is all that happened here. AMS was never an issue.

Mr. BILIRAKIS. How many employees does your company have, Mr. Yamada?

Mr. YAMADA. A little over 100.

Mr. BILIRAKIS. A little over 100 employees?

Mr. YAMADA. Today. At the time, about 50.

Mr. BILIRAKIS. Where are they located?

Mr. YAMADA. Right here in town, sir.

Mr. BILIRAKIS. Right here in town, and this is the only location of your company?

Mr. YAMADA. Well, we have a sales office, a one-man operation, on the east coast and the west coast, but they are very small.

Mr. BILIRAKIS. But, basically, virtually all of the 100 are located here?

Mr. YAMADA. Yes, sir.

Mr. BILIRAKIS. All right.

Were all of the services that were—was all the work that was performed—according to your testimony, "The specific tasks we were required to perform in the PASS contract included the following," and you listed all this.

Mr. YAMADA. Yes, sir.

Mr. BILIRAKIS. Were these the total services, or the total tasks that you contracted for?

Mr. YAMADA. Yes, sir.

Mr. BILIRAKIS. How much of these tasks were performed by your 100 employees?

Mr. YAMADA. Well, the total contract required—we had about 7 people full-time, and it peaked at about 17.

Mr. BILIRAKIS. All right, but——

Mr. YAMADA. For the size of this contract.

Mr. BILIRAKIS. Who did the document control?

Mr. YAMADA. I have that here, sir.

Mr. BILIRAKIS. I don't mean names. Was it your employees who did the document control?

Mr. YAMADA. Yes, sir. The part that we subcontracted out to GENASYS was No. 4, production control.

Mr. BILIRAKIS. Production control was subcontracted to GENASYS?

Mr. YAMADA. Yes, sir.

Mr. BILIRAKIS. What percentage of the overall contract was production control?

Mr. YAMADA. In gross amounts, $150,000 of the $1.4 million. That is the amount they received.

Mr. BILIRAKIS. How much was teamed? I guess we are seeing subcontracted, but actually teamed. And how much of it went to the other company, AMS, or whatever?

Mr. YAMADA. AMS is the computer services vendor, and the total billing was about $680,000 to them of the $1.4.

Mr. PILIERO. What was that, of the projected?

Mr. YAMADA. No; of the final amounts, the final amounts.

Mr. BILIRAKIS. So you are saying approximately $800,000 of the $1.4 was teamed out.

Mr. YAMADA. It is really not teamed out, sir. I mean, that is a bad word.

Mr. BILIRAKIS. Well, you used the word "teamed" in your testimony.

Mr. YAMADA. No, no. Teaming is with GENASYS only.

Mr. BILIRAKIS. That was a pure subcontractor?

Mr. YAMADA. Yes, sir. To say it is a subcontract or teaming would be stretching the terminology, yes, sir.

Mr. PILIERO. What was the projection originally?

Mr. YAMADA. I don't have that.

Mr. PILIERO. See, the projection originally for the AMS was not to be that number. That was because the computers had to keep running, and the SBA audited it to find out whether those were real problems, and ultimately found that the software was so poor that was to be probably $100,000 or $200,000 or $250,000 worth of use of the utility of the computer ended up being $700,000 or $600,000 because they kept running the computer, because the software wasn't there. We then did $50,000 worth of software development which we never submitted a bill for and will never ever be paid for.

Mr. BILIRAKIS. Excuse me, sir. Forgive me for interrupting you. But I want to stay on point.

What part of the specific tasks was performed by this other company that you worked with? We can't call it teaming. We can't call it subcontracting. I am not sure what we can call it.

Mr. YAMADA. AMS.

Mr. BILIRAKIS. AMS. What part of these tasks were performed by them?

Mr. YAMADA. Yes, sir. Of the $1.4 million, $683,000 was for computer services which are payable to AMS.

Mr. BILIRAKIS. Where is that here under these tasks?

Mr. YAMADA. Under the tasks, that is operations control, hardware, and maintenance control and system security.

Mr. BILIRAKIS. Hardware and maintenance control and systems security.

Mr. YAMADA. Yes, sir.

Mr. BILIRAKIS. So the label production was done by your seven employees? We will be able to start at the top.

Mr. YAMADA. The functions, yes.

Mr. BILIRAKIS. The document control was done by your seven employees, the data entry by your seven?

Mr. YAMADA. Everything else, yes, sir. Everything else was done by us. But the machinery, the equipment, was used over in Rosslyn

to produce the actual labels or papers or reports or things of that sort.

Mr. BILIRAKIS. So we have a situation then of developing rules and regulations to help small businesses, and basically we have a situation of a large share of these dollars were really to the benefit of the larger businesses rather than the small business.

Mr. YAMADA. I think you will find that true in many contracts of small businesses where they require having hardware support. A small business like ours doesn't have the resources.

Mr. BILIRAKIS. Apparently there is a limitation there which I understand can be waived.

During the 1977–78 period, you founded this company, sir.

Mr. YAMADA. Yes, sir.

Mr. BILIRAKIS. Since that time, it has been in operation. I think you testified that you have had a number of contracts with the Government.

Mr. YAMADA. Over 40, yes, sir.

Mr. BILIRAKIS. Over 40.

Mr. YAMADA. Yes, sir.

Mr. BILIRAKIS. What percentage of that work have your 100 employees actually accomplished.

Mr. YAMADA. Virtually all.

Mr. BILIRAKIS. Virtually all in those cases?

Mr. YAMADA. We have had a couple of subcontracts with other companies. Out of the some 40-plus, maybe 3 or 4 had subcontract work.

Mr. BILIRAKIS. I would look very, very seriously askance at the entire operation, sir, if it was determined your company is really a shell more than anything else to take advantage of this small business set-aside program. I am certainly not insinuating that that was the case, but I would feel very strongly about that.

Mr. YAMADA. I might mention, sir, in response, that we are very aware of the Government regulations. I wrote a lot of them when I was in the Government. I am very familiar with them. I am very careful about our proper relationships with SBA.

Mr. BILIRAKIS. I have nothing further.

Mr. BEDELL. Mr. Sisisky.

Mr. SISISKY. Thank you.

Mr. Yamada, since I opened up the discussion on the joint venture, teaming, or whatever you call it, I am satisfied now—and I didn't have the opportunity to read the testimony before I got here, which was unfortunate, too—but I am satisfied you made the statement that, in your proposal, you did identify your relationships with these other companies.

Mr. YAMADA. Absolutely.

Mr. SISISKY. So that, Mr. Chairman, to a degree, lets that company off the hook as far as doing anything that would be subterfuge or anything else like that. As long as they identified it, it was up to SBA to declare whether they were a large company then, not Mr. Yamada's company, in my opinion.

But I want to change from that now. Many of the questions that I would have asked have already been asked. However, you talked about the software and the problems with it. You had no knowl-

edge that there were any problems with the software in the PASS program; is that correct?

Mr. YAMADA. No, sir. If we did, we would have reflected that in our proposal.

Mr. SISISKY. OK, fine.

Mr. YAMADA. May I say one more thing?

Mr. SISISKY. Sure.

Mr. YAMADA. We became aware of them about 2 months after we received the contract award. I have some very talented people in my company and I am proud of them.

What we did after we found out how what we thought was a poor and technically obsolete system, we helped to redesign it, and we did it on our own time. We put about $50,000 into the effort and redesigned that entire system, the one we are talking about, for PASS.

Mr. SISISKY. Of course, you know that the GAO report that was submitted to the subcommittee on PASS was very critical about the way the system was run. The report noticed that the PASS system was barely operational in 1983.

Mr. YAMADA. Yes, sir.

Mr. SISISKY. Of course, your company was involved in this system during this period.

Why was the system in such trouble, Mr. Yamada?

Mr. YAMADA. When we received the system, sir, in 1982, it had 60,000 companies registered in it. When we were terminated on September 30, 1983, 1 year later there were 90,000 on it. So the system grew from 60,000 to more than 90,000. As I understand the GAO report and conversations with my friends in SBA, I understand the system is up to about 98,000 entries. So that means that the system grew 50 percent during the period that we had it, in the 1 year.

Mr. SISISKY. If the hardware was strong enough to take it, how would that affect the software?

Mr. YAMADA. The software and the hardware—the hardware is OK. The software was not strong enough to take it, sir. What happened was some of the—I call it inadequate. Let me put it in the very nicest way. The inadequate software was given to us 6 months after contract award. We didn't get it until around March, the batch update.

Mr. SISISKY. You did not develop the software by then.

Mr. YAMADA. We didn't even get it. No, sir, we didn't even get the software.

Mr. SISISKY. You didn't get it until 6 months after——

Mr. YAMADA. Yes, sir. Yes, sir.

What we tried to do with the SBA input—we work very closely with the SBA staff—we were on a crash schedule to bring all of this overload of work which was coming in, which I think was more than even SBA's expectations, and we tried to get it all onto the system. And the record will show that the 60,000 to 90,000—the contract that we had required 2,000 actions a month, 2,000 to update or review or put new companies in—and the record will show we did 4,000 during the life of the contract, the short period we had it, the first year of 5 years. We only did it 1 year.

Mr. SISISKY. I am still not clear, and maybe I don't understand enough about computers, really understand it, but I had one mailing in my office when I got elected to Congress on withholding taxes for interest that was something like 12,000 in 1 week. We just put it right into the computer and out the letters came.

Mr. YAMADA. Yes, sir.

Mr. SISISKY. So maybe I don't understand why this would be a big hurdle. It is probably my misunderstanding, but I know our computers, all we did was slip those names in there and get another letter for 8,000 more and get another one for 4,000 more and, all of a sudden, we are sending out 60,000 pieces of mail.

Mr. YAMADA. Yes, sir.

Mr. SISISKY. So maybe I don't understand how that works.

Mr. YAMADA. If the software is properly designed, it could do the kind of things you are talking about, sir.

In this case, the software was less than very, very good and, as a result, some of the runs that we took over to Rosslyn took 15 hours. It is ridiculous. We redesigned the software and we could do it, some of those same things, in 20 minutes or 1 hour.

Mr. PILIERO. Mr. Sisisky, I am, like you, not burdened by any knowledge of the computer business that I would consider to be in depth. But let me give you an analogy.

You have a mailing list, and the computer can punch out 60,000 letters, without a doubt, in a day. Supposing I said to your staff we are going to send 60,000 letters. Now here are 20,000 new names. I want you to put in these 20,000 new names and get those 60,000 letters out tomorrow.

His problem was he had the manpower to put in the new names, but they were growing at a rate which was 100 more, 2,000 entries to 4,000 entries a month, and the software wasn't strong enough for him to be able to input the changes. Pushing the button with the hardware, if you got good software, produces the letters for you. But getting the entries into the system, from a layman's point of view, as Mr. Yamada has explained it to me, that was the problem.

We didn't know that. The firm that did the software study and got paid for doing it knew it. We thought we had good software. That is essentially why, in a crash program, the system grew 50 percent during the period, and they ultimately respected the work he did and were willing to pay—although they haven't paid him the cash yet—because he didn't do anything wrong. The problem was that the system had been poorly designed by the previous contractor.

In layman's terms, is that a fair statement?

Mr. YAMADA. Let me give a very simple example. I think it will be clear how this works.

In noncomputer talk, the way present software is designed is called sequential. It is designed sequentially. It is designed in FORTRAN in computer language. That isn't the way to design a system of this sort that we are talking about, where you are putting a lot of names of companies away and you are trying to retrieve or update or change the address or change the owners, or whatever you are going to do in the PASS system.

Today we wouldn't design a system like that. Today, in this current state of the art—there is nothing wrong with the DEC 20 machine, but there is a new kind of thing that has been on the market for several years called the data base management system. Many companies, some of whom are my friends, are very successful because they have designed a good data base management system.

What does a data base management system do? It is like a traffic cop. Let's say that you have a telephone directory and you are trying to put names into a telephone book. The way this old system is designed, you got to start from A to go all the way down to S in order to get to S, to put it into the telephone book.

Under a newer system, which we call direct access in computer talk, you don't go from A to S, you go right to S and find it. Thereby, in this new design that we made, we did direct access with a data base management system that fits on the DEC 20. It is called the 1022. It is a data base management system. This system allows you to go right to the file that you want, records that you want, without going from A in the telephone book all the way to S.

That is what is wrong with the current system that is being used that was provided to the SBA. It is an archaic, obsolete system. According to the GAO report, we wouldn't modify it, we would overhaul the whole thing, and that is what we did.

Mr. SISISKY. Mr. Chairman, I didn't know much about computers. But I thank you for your testimony. Again, as far as your reputation is concerned, as long as you stated that you let SBA know in your preliminary bid, or whatever it was, that you were teaming with these companies, as far as I am concerned, that is perfectly all right.

Mr. BEDELL. Thank you.

Mr. Boehlert.

Mr. BOEHLERT. Mr. Chairman, maybe I am myopic, but the thing that concerns me most is I still can't see the ceiling. I am concerned about the individual contract, but the system and its cost really bothers me. Your estimated or projected cost when you bid was $673,000 and some change, and you ended up billing about $1.4 million. I am sure you feel those are very legitimate costs that are now being considered by SBA.

But there is a possibility you might have had an additional $2 million in costs that you could not have foreseen, and you obviously would have submitted a bill, and if SBA agreed with you, they would pay it. Where is the end of it? What assurance do we have when contracts are awarded that the taxpayers aren't going to pay $1 trillion for some goods or services? That is the thing that bothers me most.

Mr. Chairman, that is the thing I would like to get at in terms of the overall system. I am anxious to correct this inequity. We got to identify it and correct it, but the system bothers me. Is there any limit to what you could have charged for legitimate services?

Mr. YAMADA. Yes, sir. One of the real problems in the Government contracting is the fact that it is very difficult. I have been on the other side of the table for a long time in my career. It is extremely difficult for the Government, big Government operations like the SBA, like the Defense Department, to clearly articulate what it is that is needed. That is where the problem is.

In this case, in the PASS case, the estimate was clear that it was to be 2,000 transactions a month. That is the workload that we expected. Based on the technical details that we were able to get, we based our proposal on that basis.

As it turned out, the system grew 50 percent, from 60,000 to 90,000-plus, in 1 year's time, and the transactions weren't 2,000, they were 4,000, and the software was bad, and it required us to come back to SBA on our knees and say please give us more money, the computer services, the vendors we have over in Rosslyn just require more computer time to run this load of——

Mr. BOEHLERT. But was there ever a ceiling there, a maximum over which——

Mr. YAMADA. No, sir, not in this particular case.

Mr. BOEHLERT. It is no wonder that we have a $1.4 trillion national debt with thinking like that. It has nothing to do with you or your firm, but is with the people you are dealing with in our Government.

I have no further questions, Mr. Chairman.

Mr. BEDELL. Mr. Ray.

Mr. RAY. Who had the prior contract prior to develop the PASS software?

Mr. YAMADA. I don't personally know the company, but I believe it is called Systems Architect.

Mr. RAY. Your company didn't have an opportunity to examine the program in detail before you accepted it?

Mr. YAMADA. No, sir.

Mr. RAY. No catch-all clauses in the contract which would protect you beyond the 2,000 entries per month to 4,000? You expected to go ahead and absorb any increase? Was that written into the contract?

Mr. YAMADA. Provided that the workload stayed at that level, yes, sir.

Mr. RAY. I see. All right, sir.

Have you had other Government contracts?

Mr. YAMADA. Yes, sir, many.

Mr. RAY. All of those have worked out satisfactorily?

Mr. YAMADA. Yes, sir, every one of them.

Mr. RAY. No such problems as this?

Mr. YAMADA. No, sir.

Mr. RAY. What was the amount of money that you billed for that you haven't been paid for at this time?

Mr. YAMADA. About $180,000 of $1.4 million, sir.

Mr. RAY. Of $1.4 million. So you have been paid over the contract price, but you are $180,000 out of pocket right now; is that right?

Mr. YAMADA. Yes, sir.

Mr. RAY. I see.

Mr. YAMADA. We are awaiting SBA's review of our billings, yes, sir.

Mr. RAY. OK. Thank you, sir.

Mr. BEDELL. Mr. Schaefer.

Mr. SCHAEFER. Mr. Yamada, I would like you, if you could, to just give me a brief chronology of when you first got to the point where you were going to submit for this Government contract so

that I can see when maybe this whole thing would fit together here. We have been talking about a number of different things back and forth, and I would just like to lay it out very briefly when you started on this so that I know when we got to the problem with ERA and everything else and to give me a better perspective.

Mr. YAMADA. Yes, sir. We first learned about this contract around spring 1982, about the work that SBA required, about the April or May period of 1982. The RFP at that time was called 82-6, RFP 82-6. We submitted our proposal on May 3, 1982.

In July 1982 we were asked by SBA to hold open our bid for 60 days, because there were some internal management reviews being made at SBA, and we did.

In September 1982, SBA reviewed ERA's capability and had us perform live test certification, software certification tests, and we completed these tests satisfactorily—in other words, for us to qualify, to demonstrate our capability.

Mr. SCHAEFER. All right, go ahead.

Mr. YAMADA. In the latter part of the month, September 22, we won the award, and the contract was executed at that time.

Mr. SCHAEFER. All right.

At what time do you feel that SBA had known that there was this agreement between you and GENASYS?

Mr. YAMADA. Well, I guess, as was previously mentioned, shortly after the contract award, we learned that there was a protest on the award, and we were contacted by the management at SBA that the protest was in process.

Mr. SCHAEFER. That was right after it was awarded in September?

Mr. YAMADA. Yes, sir. I don't know the exact date.

Mr. SCHAEFER. September 22?

Mr. YAMADA. Yes, sir.

Mr. BEDELL. Excuse me. I don't think you understood his question.

Mr. YAMADA. Yes; our proposal contained all of the subcontracting you mean, sir?

Mr. SCHAEFER. Yes.

Mr. YAMADA. Yes, sir. Our proposal contained all of that information.

Mr. SCHAEFER. So they knew this at the time it was awarded on September 22, right?

Mr. YAMADA. The SBA.

Mr. SCHAEFER. All right. They knew as far away back as when you submitted your contract?

Mr. YAMADA. Yes, sir.

Mr. SCHAEFER. I mean, this was included, as was indicated by the gentleman before?

Mr. YAMADA. Yes, sir.

Mr. PILIERO. May 3 would have been that date.

Mr. SCHAEFER. May 3.

Mr. PILIERO. Right. And the staff has a copy of the proposal, so that it could be verified that the proposal contained the information, sir. It was in writing.

Mr. SCHAEFER. All right; so you got the contract. What happened, there was a review?

Mr. YAMADA. Well, we heard that there was a protest.
Mr. SCHAEFER. All right, a protest. This was by whom?
Mr. YAMADA. By the previous testifier, ICI.
Mr. SCHAEFER. By ICI, OK. Then what happened?
Mr. YAMADA. We, of course, proceeded on the work.
Mr. SCHAEFER. All right.
Mr. YAMADA. We had to do that in addition to responding to the protest questions and information we needed to supply to SBA, but we continued on the work, and we were receiving software documentation and software from SBA.

But in November of that same year, 1982, 2 months after contract award, we noticed considerable software deficiencies, and worked closely with the contract officer technical rep at SBA in an effort to overcome these deficiencies.

Mr. SCHAEFER. If there was not a protest by ICI, do you feel things would have just went right along?

Mr. YAMADA. Yes, sir, I would certainly hope so. We had a lot of difficulty with the software, which was Government furnished.

Mr. SCHAEFER. I know. I understand that. But in other words, you would not——

Mr. BEDELL. He didn't ask you what you hoped; he asked you what you thought.

Mr. YAMADA. Yes, sir. Because we had worked very closely with the management staff at SBA, and we had an informal agreement that—or not an informal agreement—we offered to redesign the whole thing. We did.

Mr. SCHAEFER. The point is, the question is, without the protest by ICI, that you would have done business as usual and there wouldn't have been this problem, SBA would not have brought up the agreement situation, and we would have never had this hearing today?

Mr. YAMADA. Yes, sir. But we would not have stood still with SBA in allowing the continuation of the use of that software. I think we would have gone in as strongly as we possibly could to recommend to SBA to redesign it. We took action to do it anyway, to redesign the software to make it more efficient. Because it took us about 3 or 4 months before we really realized what was wrong with it. We know what is wrong with it.

Mr. SCHAEFER. All right.
Anything further?
Mr. YAMADA. No, sir.
Mr. SCHAEFER. Thank you, Mr. Chairman.
Mr. BEDELL. Thank you.

Mr. Yamada, apparently there are some of your billings that are in question by the SBA that has to do with the software and the redesign of it and that sort of thing. But you spent quite a bit of money on redesigning the software and you question whether you are going to get paid for it or not; is that correct?

Mr. YAMADA. Yes, sir. Yes, sir. But that was never billed to the Government.

Mr. BEDELL. OK. I guess the question is, "Did you discuss that with the SBA before you did it?" "Did you go over with them these problems you had with the software and indicate to them that there were going to be extra costs involved, and did you get any

indication from them that you should proceed and go ahead with the work?"

Mr. YAMADA. The redesign or the additional work costs?

Mr. BEDELL. You indicated that the software was bad.

Mr. YAMADA. Yes, sir.

Mr. BEDELL. It is my understanding from testimony and from other information I have that you spent a lot of money trying to correct that software.

Mr. YAMADA. Yes, sir.

Mr. BEDELL. That was an expenditure you did not anticipate, I assume, when you bid on it.

Mr. YAMADA. Yes, sir.

Mr. BEDELL. My question is, "Did you go to them and tell them about this problem, and did you get any authorization, verbally or anything, from them indicating that they wanted you to go ahead and they would reimburse you for what you did?"

Mr. YAMADA. No. There was no agreement that we would be reimbursed for the work that we did to redesign the software.

Mr. BEDELL. I am not arguing, but why is it that you didn't do that?

Mr. YAMADA. Because it is out of scope, as far as the contract is concerned. The contract requires that the contractor, ERA in this case, use the Government-furnished software and only operate and maintain the system. That is what we were being paid to do. Because of the bad software, we felt that it was urgent that it be redesigned. So that was done outside of the contract.

Mr. BEDELL. Your contract has been taken away from you and has been given to USRA. Have you had any communications with them since that was done?

Mr. YAMADA. Yes, sir. They asked us to help them.

Mr. BEDELL. In what regard?

Mr. YAMADA. The USRA. For technical assistance. I refused on the basis that I thought that such a request should come from SBA.

Mr. BEDELL. Did they offer to pay you for that work?

Mr. YAMADA. Yes, sir.

Mr. BEDELL. USRA said they would pay you to help them?

Mr. YAMADA. Well, there was some informal discussions between——

Mr. BEDELL. But that was the implication.

Mr. YAMADA. Yes, sir.

Mr. BEDELL. What was your last year's billings?

Mr. YAMADA. I can't tell you exactly, sir. It was about—under——

Mr. PILIERO. For the whole firm, sir, or on this contract?

Mr. BEDELL. No, just the firm, ERA.

Mr. YAMADA. It is about $5 million, sir.

Mr. BEDELL. What are you going to do? Most of your work is with the Government. You are going to be disqualified shortly from even being a small business.

Mr. YAMADA. Yes, sir.

Mr. BEDELL. I mean, it is none of our business, but that is a problem.

Mr. YAMADA. Yes. That needs to be clarified, sir. On different contracts, whether it is SBA or any other Government agency,

there is a limitation put in the contract for that contract only. This September 1982 contract, the size standard was $4 million for the preceding 3 years.

Mr. BEDELL. Right.

Mr. YAMADA. We would still qualify for that for the preceding 3 years. We have not done $4 million, in excess of $4 million.

Mr. BEDELL. I understand.

Mr. YAMADA. But we would qualify. But on different contracts, different amounts are specified.

Mr. BEDELL. Oh, does the contract understand that there is not a standard small business size?

Mr. PILIERO. Chairman Bedell, if I may, the range of small businesses are covered by something called the standard industrial classification, or SIC code. And for each SIC code, the Small Business Administration has designated a number of employees or number of dollars which are small. So if you were a manufacturer, you might have a limit of 750 employees.

Mr. BEDELL. Yes; but he is one type of business. Wouldn't the requirements be the same, no matter who he is bidding for since he is the same business?

Mr. PILIERO. Mr. Chairman, even within the category of computer services, there are different types of activities, and one files a business plan and, under the business plan, one identifies different SIC codes. The different SIC codes carry with them different sizes. Mr. Yamada's SIC code is such that he is within the code, I believe, of what, $4 million at this point over a 3-year period?

Yes. However, there is a proposed rule, since that standard has been in effect for almost 10 years, which would raise it, so that Mr. Beer's, as well as Mr. Yamada's size may be extended and they may be able to remain in the program. In addition, other companies who do the same kind of service may have different SIC codes, even though they are in the computer business. If they are doing computer research, it is a different size altogether.

So it is not quite correct to suggest that computer services is all in one SIC code and it is all a $4 million average. It is really a great deal more difficult to grab hold of the numbers.

Mr. BEDELL. Are there further questions?

If not, we appreciate very much your testimony.

Mr. PILIERO. Thank you, Mr. Chairman.

Mr. BEDELL. Thank you, Mr. Yamada.

Our next witness is Mr. John Wells and Mr. William Kelleher with the U.S. Railway Association.

[The witnesses were sworn.]

Mr. BEDELL. Do you have a prepared statement or not?

Mr. WELLS. Yes, sir, I do.

Mr. BEDELL. It will be made a part of the record, and you may either read it or summarize as you see fit.

TESTIMONY OF JOHN D. WELLS, VICE PRESIDENT AND STAFF DIRECTOR, U.S. RAILWAY ASSOCIATION, ACCOMPANIED BY WILLIAM J. KELLEHER, DATA PROCESSING DIRECTOR, USRA

Mr. WELLS. Thank you, Mr. Chairman.

I thought that I would just cover some of the highlights of my prepared statement.

The U.S. Railway Association found itself with excess computer capacity early in 1982. And pursuant to the procedures established by the General Services Administration, which is responsible for automated data processing procurements, either of hardware or timesharing or software, throughout the Federal Government, we listed with the GSA in their monthly circular that we had excess capacity available on our DEC 20-60. This was first published in May 1982. As a result of that listing, we at the present time are providing timesharing services to six Federal agencies.

The first contact we had from SBA was in the possibly June or July area of 1982, shortly after that first circular came out. They had learned of the availability of our machine through that means. We had had no prior contact and had no knowledge of their programs or their computer needs prior to that time.

SBA asked us for information about the particular configuration of our computer and its peripherals and our billing rates, and we supplied them. We did not hear from them again until August 1982. At that time, SBA asked USRA to assist them in validating the software certification test for the PASS program. As we understood it, the purpose of the test that they asked us to do was to exercise critical parts of the PASS software that had been received from the previous contractor, Systems Architects, Inc., known as SAI. That, in turn, was going to be turned over to a new contractor, which SBA was in the process of selecting.

The test was basically to certify that the software supplied by SAI could be run by a new contractor—one who hadn't written that software—from the documentation supplied by SAT. We performed that test. I believe the bill for that work was about $2,500 for a couple of days of machine time on our computer.

We did not hear from SBA again until January 1983, at which time they informed us that the contract had been awarded in the fall of 1982 to a firm known as Executive Resources Associates, but since taking over the contract, that firm had been unable to run the batch update system. As a result, the data base was getting quite a bit more out of date than it already was.

We were asked to test certain of the programs which had been supplied to ERA by the previous contractor, including, if possible, to use a real demonstration—not just a test, but to give the added benefit of getting the data base up to date—if we could make the batch update run. We performed this work during the months of January, February, and March 1983, and were successful in getting an actual batch update accomplished. We documented the steps we had taken to make the programs run. We provided that documentation and the updated tapes to SBA, and we assumed that they passed them on to ERA for continued operation of the system.

The next contact from SBA came in July 1983, at which time they called and said that they would like to discuss the possibility of actually having USRA run the entire PASS system for fiscal year 1984. They were not in the position at that time, they explained, to make a firm offer for us to do that work. We did not make a firm indication that we would be willing to at that time.

But they said they were in the process of reviewing their alternatives and would get back to us.

Sometime early to mid-August, they contacted us again and said that they would like very much to have us run the PASS system for them.

Initially, SBA asked USRA to do all of the tasks that had been covered in the contract with ERA and its affiliates and the prior management of the system by SAI. This included some data entry work which USRA indicated it would be very reluctant to undertake because we were not staffed to do data entry in the volume required to keep the PASS system up to date.

In September, SBA notified us that they had arranged for the data entry work to be provided by another small business firm, Computer Science Service Bureau. They asked us at that time if we would now, with that arrangement made, be willing to undertake the remainder of the PASS work. SBA also indicated at the same time it was its intent during fiscal year 1984 to put out a contract to redesign PASS with new software and for new hardware, and that that was intended to provide a new operating PASS system by the beginning of fiscal year 1985. Thus, it was very clear that our role was to provide the interim operation of the system only during fiscal year 1984 and not beyond, and our contract makes that very clear.

I should comment on how we charge and generally, given some of the discussion that has taken place already, talk about the structure of our contract.

Basically, our contract provides that SBA will pay a specified price per unit of service that we provide to them. For example, it differentiates between the time when the system is simply connected to the computer and the time when it is running the central processing unit of the computer and using its true computing capacity.

It also sets out the rate for disc storage, which is one of the types of charges for equipment that is done on a monthly basis rather than a unit of service. It also sets forth the rates that will be charged for various classes of personnel on the USRA staff, if and when they are required to do special programing or other assignments that go beyond our basic responsibility to provide an operating computer system. In other words, there is a formula for computing what the charges are every month based upon utilization.

There is a financial ceiling to the contract of $900,000. To anticipate what would happen in our case, if we were to bump up against that ceiling, we would simply have to go to SBA and say we have expended the funds already available under the contract providing the service already provided during this fiscal year, here is how it was done, and so forth, although we keep them apprised on a regular basis so they wouldn't be suprised at anything at that point. We would simply have to say, if you want us to continue providing the service through the remainder of the year—if we had already expended the $900,000—we will need additional financial authorization. Now, in fact, we think that the contract is probably going to come in pretty close to the $900,000, based on our experience of running the system for 3 months so far.

The other thing you should understand is that the rates we charge are determined by a circular put out by the General Accounting Office which provides for the principles that apply to charges from one Government agency to another in a circumstance like this.

The principle is quite simple. We allocate the costs to all of the users of the machine, ourselves included, for our internal applications. We then charge each user of the machine only for his allocated share of the cost based on his percentage of total utilization. We have to revise this formula from time to time as total utilization changes, because it means that the rate will change to cover the same absolute level of costs.

At the present time, we think that we are probably going to slightly over-recover costs for fiscal year 1984 at our present utilization rates and, accordingly, we are studying adjustment of the formula for the remainder of the year. If, at the end of the year, we have overcharged or charged more than our allocable costs to the users, the excess is turned over to the Treasury. So it does not stay in the USRA account, and it is solely up to OMB's discretion as to how those funds are handled.

That covers basically the content of my prepared statement.

Again, in response to some of the material that has been covered already by the subcommittee, I would like to point out that the contract that USRA had considered entering into with some of its employees was never entered into. It was also not a factor in our consideration of whether or not to accept the SBA business. It was a contracting arrangement that was considered for our own internal management reasons. It was considered by our full board, including the General Accounting Office which is on our board, and studied very carefully by them. To the best of my knowledge, GAO had no objection.

[Mr. Wells' prepared statement follows:]

PREPARED STATEMENT OF JOHN D. WELLS, VICE PRESIDENT AND STAFF DIRECTOR, UNITED STATES RAILWAY ASSOCIATION

I appreciate the opportunity to appear before you today to discuss the role of the United States Railway Association (USRA) in providing its excess computer capacity to the Small Business Administration. Joining me today to assist in answering your questions is William J. Kelleher, USRA's Data Processing Director.

USRA was created by the Regional Rail Reorganization Act of 1973 to design a successor operating entity to the scores of bankrupt railroads in the Northeast and Midwest. The result was Conrail, which commenced operations on April 1, 1976. Since that time, USRA has been responsible for evaluating Conrail and, by agreement with the Justice Department, defending the U.S. government against the claims of the bankrupt estates for the assets transferred to Conrail.

The Conrail evaluation work relies upon extensive and highly specialized analyses of all aspects of Conrail operations. The subject of the analyses is a railroad which until recently was

the largest in the nation, covering 16 states with over 25,000 track miles manned by almost 40,000 employees. This analytical work has been the foundation for required periodic reports to the Congress, as well as special studies or recommendations requested by the Congress at several key stages of Conrail's progress.

Litigating the "valuation" case, as it is called, was a similarly complex undertaking. Every asset transferred to Conrail had to be inventoried, classified, and appraised. The data base constructed for this case has been said to be the largest in U.S. civil litigation history excepting only the IBM antitrust proceedings.

Both the Conrail evaluation and the litigation required very significant computer assistance for efficient storage and analysis of the vast data bases employed. This was initially done through time sharing services, but the monthly cost had reached over $100,000 by early 1978 and was still growing. Since a computer of the proper type and size for USRA's needs could be purchased for approximately $1 million, it was decided to acquire our own -- an investment which has paid for itself many times over. Initially USRA operated its DEC-2060 computer on a 24-hour, seven day a week basis and utilized all of the effective capacity of the machine. As the USRA staff became more familiar with the DEC-2060, scores of specialized programs were written to aid in the efficient conduct of our Conrail evaluation work. The replacement cost of software used today in this work probably

exceeds $1,000,000.

In January 1981, the largest of the seven primary valuation cases was concluded in a negotiated settlement. Other cases began following this pattern during that year, with the result that by early 1982 the litigation's demand for computer assistance had dropped to a fraction of its previous levels.

USRA thus found itself with more computer capacity than required for its internal needs. Federal agencies having underutilized computing capacity are encouraged to alert other agencies to the availability of their facility by "listing" with the General Services Administration (GSA). A monthly circular is published by GSA showing the geographic region, computer type, contact person and telephone, and name of the agency with computer availability (which GSA calls "excess ADP resources"). USRA's DEC-2060 was listed with GSA, and appeared in its monthly circular for the first time in May 1982. At that time and to this day we had the only DEC-2060 listing with GSA. Rates for interagency cost sharing of ADP resources are set according to principles promulgated by the General Accounting office.

Our first ADP sharing arrangement started in June 1982 with Amtrak. By October 1982, USRA had continuing ADP sharing arrangements with three federal agencies (Amtrak, Arms Control and Disarmament Agency, and the U.S. Forest Service). In every case the ADP sharing involved computer programs already written

by the other agencies to run on a DEC-2060. Each of these agencies independently compared USRA and commercial facilities, as required by GSA procedures, and found that USRA was the most economical.

SBA first became aware of the availability of USRA's DEC-2060 from the GSA circular and subsequently requested additional information from USRA early in the summer of 1982. USRA supplied information on rates and system configuration.

In August of 1982, the SBA asked USRA to assist them in validating the software certification test for the Procurement Automated Source System (PASS). As we understood it, the purpose of this test was to exercise critical parts of the PASS software received from the previous contractor, Systems Architects, Inc. (SAI), that would be turned over to a new contractor in October of 1982. The test was to certify that the software supplied by SAI could be run by a new contractor.

SBA contacted us again in January 1983. They explained that Executive Resource Associates, Inc. (ERA) had been awarded the PASS contract, but since taking over the system had been unable to update the data base, a periodic task necessary to the accuracy of the system. We were asked to test certain of the programs suppled to ERA by the previous contractor, including if possible the actual updating of a copy of the data base. We performed this work during parts of January, February, and March

1983. We documented the steps we had taken in verifying the operatability of the computer programs, and we assume SBA gave this information and the updated data tape to ERA for continuing operations.

The next contact from SBA came in August of 1983. We were told that there were some difficulties in renewing the contract with ERA to operate the PASS System in FY1984 and that SBA was considering several alternatives including moving the PASS System to the USRA computer for FY1984.

Initially, SBA asked if USRA would be willing and able to perform all the tasks previously contracted to ERA, which included not only running the PASS computer programs, but also providing data entry staff to type in and verify new and updated profiles received from small businesses. The capacity to provide large volume data entry of the sort required for PASS is not currently in place at USRA, and we indicated reluctance to take on this part of the work.

In September, SBA arranged to have the data entry part of PASS performed by Computer Science Service Bureau, and asked USRA to undertake operation of the remainder of PASS for the fiscal year 1984. SBA indicated that at the same time it intended to select another contractor to develop a new version of PASS for a different computer, and that it would recompete operation and maintenance of the new PASS System as a small business set aside

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for FY1985. Thus USRA's involvement was to be limited to keeping the old system going through FY1984.

We understand that the SBA will provide the Subcommittee with a summary of the results of USRA's operation of PASS programs since October 1. Our billings to SBA for October, November, and December were $42,895, $75,909, $86,906, respectively. The amounts have grown each month as we put into operation more and more of the individual elements of the several computer programs which make up PASS and as we finished the backlog of updates and reorganized the data base. We expect SBA's consumption of computer time will level off within a month or two at slightly above December's levels.

While GSA is responsible for seeing that excess federal ADP resources are used before new commercial sources are engaged, the price charged by one federal agency to another is governed by principles set forth by the General Accounting Office (GAO). Basically, GAO requires that a sharing agency such as USRA set its billing rates at a level which will recover the ADP costs allocated to external users, and no more. Any billings above cost must be surrendered to the Treasury at the end of the fiscal year. At the present rate of usage by SBA and other federal agencies, USRA's computer billings may exceed that cost computation. Accordingly, a downward adjustment of our rates is being considered.

This concludes my prepared testimony. We will be happy to answer any questions the Subcommittee may have at this time.

Mr. BEDELL. Thank you.

Mr. Sisisky.

Mr. SISISKY. I want to bring up, Mr. Chairman, the fact of this contract with your employees that you were considering. You said you were considering with the full knowledge of your board of the U.S. Railroad Association?

Mr. WELLS. Yes, sir.

Mr. SISISKY. How did this contract, the PASS contract, figure into your deliberations, as far as using Mr. Kelleher——

Mr. WELLS. That is right, who is with me today to answer questions.

The two were not related, sir. We had started considering the possibility of using a contract management approach to our computer facility as early as May 1982, long before we had any idea that SBA was going to be interested in running the PASS program with us.

Mr. SISISKY. I have a memo here dated August 16, 1983. I can't read it too well. My eyes are bad and I didn't underline as I read it.

The appeal to William of our proposal is the opportunity to start his own business. A contract with USRA would allow him to get through a startup year with the high likelihood of at least subsistence level revenues, and give him time to establish an administrative structure for his firm and start canvassing the Washington marketplace for similar facilities management contracts and/or programming assignments for future years. From our point of view, the advantage is that he offers a more credible future to his employees.

So basically, this is dated August 16, 1983. This contract was very important if indeed you were going to spinoff your employees from that to use this contract as a basis for subsistence. You wrote this memo, I think.

Mr. WELLS. Yes, sir. I believe that you are quoting from my memorandum to the chairman.

Mr. SISISKY. Yes, to Mr. Berger.

Mr. WELLS. All right. First, the arrangement is not what has been alluded to in some earlier characterizations of it. We were not spinning off our computer operation. We were not spinning off anything. We were not severing the computer from USRA or establishing a subsidiary or anything like that.

What we were doing was going to three employees and saying we are not sure what our requirements are going to be for your services in the coming year. We don't know if we are going to need you fulltime or halftime. We would rather convert to some sort of hourly arrangement for your services, if you are willing to go out and form an enterprise that will contract with us on an hourly basis. The notion was that if we needed them a lot, we probably would end up paying a little bit more in total dollars than we would have if we had kept them on the payroll.

Mr. SISISKY. Would you have bid that out, or you would just use your own employees? How are you working these employees now, at 50 percent of the time before that? I am not following, and maybe it is something I missed.

Mr. WELLS. As our documents submitted to the board fully disclosed, we had reached the point in the summer of 1983 where we were not able to use all these employees fulltime. Yet, we required each one of them, because we had reached a minimum scale in that

group. In other words, we could not go below three people in that group and provide the shift coverage that we provide to the computer center. We couldn't cut off one more person. Otherwise if all of a sudden, one more was sick or on vacation, we literally can't run the center.

We had come down from 35 people in computer operations to 3 over the course of 3 years of reduction of our staff. We were at the point where we could no longer reduce our access to three different individuals. At the same time, it was clear—and we candidly acknowledged to the board—that we didn't have them running all of the time. We thought that there might be some opportunity to have them sell their services to us on an hourly basis and only when we needed it, but still have all three available when we needed three at once, with them having the opportunity to sell their services to someone else for the rest of the time.

Mr. SISISKY. You told the board, I assume, that this would be a cheaper way of doing it than the way you are doing it now, by having three fulltime employees?

Mr. WELLS. As I disclosed in the memo, our estimate was that, if we utilized these people 75 percent of the time, or 30 hours a week, on a contract basis, it would be approximately a breakeven to having them on the payroll. If they dropped below that in terms of the amount of time we needed, we would be saving money.

Mr. SISISKY. There is something that is missing me completely. If you needed employees around the clock, three employees to be there, how would you be reducing the amount of time?

They would still have to be there. They would be doing work at your installation?

Mr. WELLS. No; it is a peak problem, Congressman. There would be times when we would need access to all three at once. In the first place, we were running a two-shift operation, which meant that we had one operator there from in the morning for 8 hours, and another who came in later and worked till 10:30.

Mr. SISISKY. Do you have copies of your introduction to this scheme to your board? I know it is to your chairman here that I have, but you said that you brought this up to the board. I would like to see that because you would never be able to sell me if I was on that board in a scheme like that, and it looks very deliberate by this paragraph that this was a way that a governmental agency could get some business in, can start another business. That is the way it looks to me, and I would assume it would look to the public like that, that you are getting ready to start a private business from Government employees, based on a contract that you received on a bid from the Small Business Administration.

Mr. WELLS. Can I just emphasize these points in clarification?

USRA was not going to have any interest, financial or otherwise, in whatever enterprise was set up by the employees.

Mr. SISISKY. I would hope not.

Mr. WELLS. OK. We were in a situation where we had no expectation of existing for more than 1 more year and where we were continually being asked to reduce our budget lower and lower. We have been in the process of sunsetting for some time. We were down from 320 people at our peak in 1981 to approximately 40 people last summer.

Mr. SISISKY. Is that through contracting out or just by the business that you do? I don't even know what business you do, to be honest with you.

Mr. WELLS. Our functions have changed. The major part of the work that we had completed was the litigation, representing the U.S. Government against the bankrupt estates whose assets were transferred to Conrail. That was an operation which consumed enormous amounts of personnel and when the cases started settling, we started winding down.

We have also been able to achieve some economies in our continuing monitoring of Conrail functions which we carry on today and which are our primary responsibilities today.

We had come down to 40 people from 320. We had no prior instances where employees had formed firms and contracted back to us in quite the same way we had proposed here. We had converted some employees to part-time employees or hourly because we could no longer justify them full time.

There were other cases where employees left us and went to consulting firms, established consulting firms, and we later came upon a need to use their services. We have a procedure where in that event, where we are going to contract with the consulting firm and a key person on the project is a prior employee, we must go to the board and have the board approve that, have all the facts explained to them, and the chief thing that always governs a case like that is a specialized skill and knowledge, quite frankly obtained while they were at USRA, that we can't get in any other reasonable way.

Mr. SISISKY. So, you have reduced your employment level, but you have hired consultants to do the work. They are off the Federal payroll?

Mr. WELLS. No; in point of fact, our consulting volume on a dollar basis has dropped from several hundred thousand dollars a year back when the litigation was going on to probably less than $5,000 to $10,000 a year now. It is not a major issue.

Mr. SISISKY. I yield, Mr. Chairman.

Mr. BEDELL. The gentleman is aware the board approved the proposal.

Mr. SISISKY. I am not aware.

Mr. BEDELL. When the board approved the proposal, as I understand it, it was——

Mr. WELLS. They never voted on it, Mr. Chairman.

Mr. BEDELL. Oh, they didn't.

Mr. WELLS. The individual staffs of the agencies reviewed it, including the General Accounting Office.

Mr. BEDELL. Was it the Inspector General or who that told you you couldn't do it?

Mr. WELLS. No one told us we couldn't. We had one member of the board, the Department of Transportation, which objected to it, but the matter was never brought to a vote. The administration deferred our funds in an action communicated to us on September 27, 1983, in our budget, in an action which would have resulted in us going out of business in a number of months.

In fact, as the General Accounting Office was later to report to the Congress, this action was essentially tantamount to a rescis-

sion. At the time that that deferral was announced to us, Mr. Kelleher, who was the individual who had agreed that he would convert from an employee status to a contractor status, reversed his commitment to do that and said he would not be willing to enter into a contract with us under those circumstances. He would wait with the rest of us and see if Congress overrode the rescission of our funds and simply stay on payroll. So the matter was dropped at that time.

Now, that matter had nothing to do with the SBA. We went forward with the SBA business, even though the contract proposal wasn't implemented.

Mr. BEDELL. Did the SBA know you were planning to do this?

Mr. WELLS. We notified them in early August as a matter of course that there was a possibility that some of the people who would be working on the system would be in a contractual relationship to us, rather than in employment, but that we were still going to own the computer, and of course, the bulk of the charges are related to the computer itself, not to the people who maintain it.

As I understand it, they essentially expressed indifference, if they ever expressed anything at all.

Mr. SISISKY. It had nothing to do with your bid to the SBA——

Mr. WELLS. No.

Mr. SISISKY. Of being able to do this. I mean, I want that for the record.

Mr. WELLS. That is right.

Mr. SISISKY. It had nothing to do with that at all.

Mr. WELLS. That is correct.

Mr. SISISKY. Is that correct?

Mr. WELLS. Nothing at all.

Mr. SISISKY. Thank you, Mr. Chairman.

How long are you planning on meeting, Mr. Chairman? I have got a 12:30——

Mr. BEDELL. I guess it is up to the committee. It would be the preference of the chairman if, unless there is objection from the committee or SBA, that we go right on through and finish things up.

Mr. SISISKY. May I ask the chairman to leave the record open so that we could submit questions from the testimony, if you will, sir.

Mr. BEDELL. What is the wish of the other members? We can either go on through or we can adjourn for an hour to eat. Frankly, that will give me some problems in scheduling if we adjourn.

Is it agreeable to go on? Are the SBA people here? Is it agreeable with you if we proceed to try to finish up, even though we may be another hour or so yet?

Mr. TURNBULL. Certainly.

Mr. BEDELL. OK. Thank you.

Mr. WELLS. Mr. Chairman.

Mr. BEDELL. Are you through, Mr. Sisisky?

Mr. SISISKY. At the present time.

Mr. BEDELL. I was going to call on Mr. Olin. Do you have something first?

Mr. WELLS. Mr. Sisisky asked me a question that I realized I didn't completely answer. If I may, I would like to supplement it.

You had asked, in essence, how we could turn our employees into contractors, and I started talking about the fact that we didn't know that we had but a year to go and that we were reducing our resources.

We also had a situation here where we couldn't compete for this assistance. Given that we only had a year to go, and these were trained computer people on our system, our hardware, its configuration and our software, the only way we could have competed this was to have taken 6 months to go through a competition and training process for any new vendors that might have been hired and then put them on for 6 months. It just did not seem like an efficient thing to do. These are highly specialized functions.

Mr. SISISKY. I think it is very mandatory that you are looking after your employees; that is not the issue here. The issue and you answered it to me under oath that you did not compete for this bid from SBA with the knowledge that your employees would probably be getting the contract.

That, to me, is the issue. I think it is laudatory that you are doing that for people that are being RIF'd. I just want to be sure that Government agencies aren't competing unfairly with private companies, and particularly small business companies.

Mr. WELLS. No.

Mr. SISISKY. That is the issue.

Mr. BEDELL. Mr. Sisisky, I think there is great question as to why they did compete to get the bid. We will find that out from SBA, but it was not, at least, a request for competitive bids or anything of that nature, as far as I understand it.

Mr. Olin.

Mr. OLIN. I just have a couple of questions, Mr. Chairman, thank you.

Mr. Wells, do I understand that you expect to terminate your operation within a year.

Mr. WELLS. Well, we had a 1-year appropriation granted to us on August 15, 1983. We have not submitted a budget request for an additional year. We are not in the President's budget.

Mr. OLIN. OK, so you might be terminated, and SBA might be required to find somebody else to do this work.

Mr. WELLS. We are only expecting to do the work until the beginning of fiscal year 1985 anyway. That is what we were contracted for.

Mr. OLIN. Even if you continue as an organization, you would not expect to be doing this work another year.

Mr. WELLS. That is right. That is our present expectation, is that the SBA work will have been moved to a new system by the start of fiscal year 1985.

Mr. OLIN. OK.

Mr. WELLS. That is what they have told us they intend to do.

Mr. OLIN. A question back on the nature of the situation when you took this over, and while Mr. Yamada's firm had it, you had some contracts in parallel with Mr. Yamada to improve the software, I take it, take the bugs out of the software and also do some data entry.

Mr. WELLS. No, sir, that is not quite correct.

Mr. OLIN. Is that what you said?

Mr. WELLS. What we were hired to do during the January, February, and March period of 1983 was to test some of the software that Mr. Yamada had reported to SBA he could not get to run. In particular, the batch update software.

Mr. OLIN. That was that late software that he referred to, is that right?

Mr. WELLS. I don't know when it came to him.

Mr. OLIN. He said quite a bit of it came 6 months late.

Mr. WELLS. In any event, we were simply asked to verify that this software would operate. Now, in fact, we would have to say it wasn't entirely straightforward to use, but we were able to use it and we documented the steps we took to use it, and we were able to not just test it in a laboratory sense, but also to run a real update operation and take the files, which had been provided on a computer tape of the new firm profiles, or amendment information that was to be added to the core data base, and we were able to merge the two, and we then provided that merged updated tape, along with the documentation of the steps we had taken to make it run back to SBA. That was the extent of our work for them.

Mr. OLIN. OK. You received all this software from the Yamada firm when you took this over, is that right?

Mr. WELLS. You mean in October 1, 1983?

Mr. OLIN. Yes; October 1, 1983.

Mr. WELLS. Yes, sir. When we took it over.

Mr. OLIN. What was the status of it as you took it over? Was it operating properly?

Mr. WELLS. Well, ERA had been running the basic system in its search-and-retrieval mode so the customers could access it, and they had, subsequent to the test that we had run in the spring, been able to do some updating. I don't know the precise degree of it, but he had been running that portion of the system.

There were a number of other ancillary programs that are part of the past system which he had not run. I have no idea whether he attempted them or not, but SBA made it very clear to us that they wanted us to run those programs.

Mr. OLIN. OK, and you have got them running now, have you?

Mr. WELLS. We are probably halfway through putting up these incremental programs that have not been run since SAI turned it over to ERA 2 years ago.

Mr. OLIN. How about the data entry part, getting the entry of new firms updated and the correction of any changes on old firms?

Mr. WELLS. We do not do the manual inputting of the data. There is another firm that SBA retained to do this work. They use their terminals to feed the data directly into the computer. We do not do the manual entry work.

Mr. OLIN. I see.

Mr. WELLS. We are processing the updates, and the system is up to date now.

As of last week, there were 1,500 from the backlog of ERA profiles. We were putting them in, but we were completely up to date on new profiles received since September 1, since August 1.

Mr. OLIN. Would you expect this whole subject here would be in a position for SBA to go out for competitive bids on a fixed-price basis at the end of the year, at the end of your year?

Mr. WELLS. You mean with the existing software that we are using?

Mr. OLIN. Yes, yes.

Mr. WELLS. Well, I would have to make two comments to that, sir. One is that in order to actually structure this as a fixed-price contract, you would have to freeze the size of the system. You would have to define that you couldn't let new profiles come in that would increase your total data base.

Mr. OLIN. You could have a price for every 1,000 new names or something like that.

Mr. WELLS. All right, you could have unit price, surely. For various ways of characterizing the operating level of the system, you could have unit prices.

Mr. OLIN. It is a system of good enough quality now so it is predictable in that sense where the SBA could get firm numbers.

Mr. WELLS. That is the part of it I haven't addressed yet.

Mr. OLIN. Go ahead.

Mr. WELLS. That is No. 2. First off, for anyone to bid on a fixed-price contract for work of this sort requires extensive familiarity with the requirement, which means operating probably a fair amount of the software on a demonstration basis. That is not normally done in procurements of this sort.

Second, as to the state of this particular system, it is our judgment that if one were to rely on operating this system in the future, rather than the new one that is being developed by SBA, and that if it were to be handed off to another contractor at the end of our fiscal year, there are probably some improvement and documentation steps that we should undertake, above and beyond what we are doing now in order to prepare for that eventuality, because it is a sophisticated set of programs and we have some unusually competent people who have been able to fix some problems that we didn't know were there.

But to get it to the point where a firm could just go from scratch and, in a sense, throw the switch and have it run, as opposed to doing the kind of detective work we have to do in many instances, would require some further documentation and repair work on the system.

Mr. OLIN. OK, thank you very much. That is all, Mr. Chairman.

Mr. BEDELL. Thank you very much, Mr. Olin.

I need to understand a little bit about what we are talking about here. This is putting names into the computer so that you would know who would be qualified for various types of possible contract awards. Is that correct?

Mr. WELLS. Yes, sir.

Mr. BEDELL. Does that involve simply putting names into the computer with some type of identification codes so if you want to find out what small businesses would be able to furnish computer services, for example, you punch a button and so many names come up. Is that what it is?

Mr. WELLS. That is right. There are other descriptors as well, such as geography.

Mr. BEDELL. OK. So you have got——

Mr. WELLS. But codes are basically right.

Mr. BEDELL. I guess I have trouble understanding a little bit this great complexity that everybody seems to think there is here. I am just a layman, but it would seem to me that should be fairly simple, to get those codes that you had for identification purposes of the various requirements and put them with a name and put the name in and you have got it there. Is there something I don't understand about it?

Mr. WELLS. Let me comment to a certain degree, and if that is satisfactory, we won't turn to William. If it is not, I will have him go into more detail.

Basically, you have several things going on here. One is that when you have relatively large data bases, you have some increase in software sophistication, compared to small data bases, but more importantly, and Mr. Yamada discussed this earlier, there has been some learning process in managing large data bases in the last few years.

The system that was designed by SAI, when it was designed 8 years ago, was probably state of the art. Today, it is not. By our standards today, in terms of what has happened with the software changes, as well as hardware improvements that have come along, we would regard it as probably an inefficient and cumbersome system. One could improve it in that sense. We have already made some improvements in how rapidly it runs because of what our fellows have learned over the years, operating with just the DEC 20 and the particular applications one puts on that machine.

But there are a number of programs that are part of the total package of making the PASS system run, and by our standards today in computer terminology, they are quite complicated.

Mr. BEDELL. I guess the thing I don't understand as a layman, and I think it is fairly important, really, that the committee should understand it, and that is, you have a geographical classification and you use the alphabet or something to classify each person geographically. Then you have got the type of business that they are in, and I suppose you have got numerals or something that you classify.

Maybe you want to break that down further into further classifications. I understand that, but the thing I don't understand is I thought it was just that simple and apparently it isn't. I thought it was just that simple that you enter the names in with the proper classifications and then with the computer, all you do is you say you want according to these classifications and punch a button and the computer will sort and find out those people.

Is that not the way it works?

Mr. WELLS. Let me defer to Mr. Kelleher at this point and let him respond.

Mr. BEDELL. Would you, Mr. Kelleher? We have had all this fuss about software and I don't understand the complexity of it.

Mr. KELLEHER. The complexity comes about when you try to get it done quickly. There are almost 100,000 companies in the file. Each of those companies has filled out a profile that has name, address, and it has a capability statement, which is an ordinary English-language description filled in by the company of what it does.

If I said I wanted to have all the firms in Washington which did computer services, we could just read through that whole file,

100,000 companies, just start at the beginning and read through to the end. That would probably take about an hour.

If you were sitting down to a terminal and wanted to find the information, you would not be willing to sit there and wait for an hour, indeed, to get the information. Indeed, the PASS requirement is that you get this information in 45 seconds.

Mr. BEDELL. Why?

Mr. KELLEHER. Why? Well, I guess there are several reasons. First of all, they don't want to waste your time sitting at a terminal an hour waiting to get the information.

Mr. BEDELL. Are we talking about $100,000 or 10 cents, do you know——

Mr. KELLEHER. Pardon me?

Mr. BEDELL. I would think cost would be of some consideration. I should not think the SBA would be greatly concerned whether they got the information in 45 seconds or an hour if they wanted to know——

Mr. KELLEHER. It is an inefficient way to use a computer, also, to let the computer sit there for an hour and do something it can do in 45 seconds.

Mr. BEDELL. How often does the SBA request information like that?

Mr. KELLEHER. We have 8 to 10 people on the system all the time requesting information.

Mr. BEDELL. On PASS?

Mr. KELLEHER. Yes; people using PASS. These are not only the SBA itself, but also other Government agencies and some Government contractors who need to find small businesses to use as subcontractors. So, for example, if you, as a Federal agency, needed to find a contractor to paint the walls in your office, you might sit down to a terminal and ask for the contractors in the Washington area who can paint offices. It would immediately give you a list if there were any in the system.

Mr. OLIN. Mr. Chairman, would you yield?

Mr. BEDELL. Be glad to.

Mr. OLIN. This system has what, 120 terminals on it, scattered around the country, some such number?

Mr. KELLEHER. There are 120-some users, and each of them has a terminal, but they are not all connected at any one instant.

Mr. OLIN. They are not all connected simultaneously.

Mr. KELLEHER. That is right. We have 8 to 10 at a time.

Mr. OLIN. Mr. Chairman, as you can visualize what is happening, you have people at random assessing this system——

Mr. KELLEHER. That is right.

Mr. OLIN. And they are sitting there wanting to get their answer. Actually, 45 seconds is a very long delay time——

Mr. KELLEHER. That is right, it is.

Mr. OLIN. You would much rather have 5 or 10 seconds.

Mr. KELLEHER. In fact, the contract requires 45 seconds. It doesn't usually take that.

Mr. OLIN. So what he is saying is it doesn't appear unreasonable to me at all. That is really slow, actually.

Mr. BEDELL. So, if one person was trying to get information, nobody else can get it until he is through.

Mr. KELLEHER. No; that is not true. Theoretically, there is no limit to the number of people that can get information simultaneously, but there is—machines will only go so fast, I mean, but the contract requires that if we have—I think it is 16 people—using it simultaneously, each of those people is served within 45 seconds.

Mr. OLIN. That is the nature of the system. It is a multiple-access system where each user can't tell if there are other people assessing, right?

Mr. KELLEHER. Right, each user thinks he has got the whole machine to himself.

Mr. BEDELL. OK, and how many names have you put on while you have had the contract?

Mr. KELLEHER. We received a data base of 89,000. The data base that is on line as of right now has 98,000 companies on it and we are about to add a data base with, I think, another 6,000 to 8,000 more.

Mr. BEDELL. So you put on about 9,000 names?

Mr. KELLEHER. Yes.

Mr. BEDELL. In your contract, how much have you billed SBA?

Mr. KELLEHER. The total is in the testimony.

Mr. WELLS. For the first quarter, we have billed—and these are monthly figures that are in my prepared testimony—approximately $43,000 in October, approximately $76,000 in November, and approximately $87,000 in December.

Mr. BEDELL. That is all you billed them?

Mr. WELLS. That is all we billed them for those 3 months, yes, sir, total.

Mr. BEDELL. So that is all they have spent with you since you have had the contract.

Mr. WELLS. Since October 1, that is correct. I don't even know for sure that the December invoice has been paid, but those have been our billings for the first quarter.

Mr. BEDELL. So you feel you have straightened out the problems with the software and the programing and you have put on 9,000 names and your total billing has been whatever that totals up to, $250,000 or so?

Mr. WELLS. Yes, and you said, "Have we straightened out all the software?" We haven't even tried some of the programs. There are certain programs which are intended to do certain extra or special tasks with the PASS system we haven't gotten to yet.

Everything we have come across so far we have eventually been able to get it to work.

Mr. BEDELL. You said Computer Science Data or somebody has a contract on this. I have never heard of that. What is that deal?

Mr. WELLS. The Computer Science Service Bureau, I believe, is the name of it.

Mr. BEDELL. What do they do?

Mr. WELLS. This is the firm that provides the data entry task associated with running the PASS system. They get the pieces of paper and convert those to the computer input. It is a manual operation.

Mr. BEDELL. So the people we are talking about don't put this information in the computer at all.

Mr. WELLS. Well, the pieces of paper that we are talking about are a new business that wants to be listed in the file and he fills out his profile, including his description of his business. That is sent to this firm in hard copy. That is a sample of it.

Then a staff of people at Computer Science Service Bureau sit down and key that data into the computer files.

Mr. OLIN. They also do all the changes in old data?

Mr. WELLS. That is right. They do amendments as well as new profiles.

Mr. OLIN. Do you have any idea what SBA is paying for that part of the service?

Mr. WELLS. I don't know.

Mr. OLIN. We can find that out shortly.

Mr. BEDELL. Is your only service to furnish the computer and the program and software with that computer to make the system work properly?

Mr. WELLS. That is right, sir.

Mr. BEDELL. That is the only thing you do.

Mr. WELLS. That is right.

Mr. BEDELL. Is that the only thing ERA did?

Mr. WELLS. They did both what we are doing and what Computer Science Service Bureau is doing.

Mr. BEDELL. Oh, OK.

Mr. WELLS. We declined to do that part of the work.

Mr. BEDELL. Oh, OK.

Mr. Kelleher, are you the one that had the dealings with SBA?

Mr. KELLEHER. Yes, sir.

Mr. BEDELL. Providing that service?

Mr. KELLEHER. Yes.

Mr. BEDELL. Can you tell us the dates of when you contacted them and how it all happened, because there is some discrepancy here apparently.

Mr. KELLEHER. Well, I am just going to refer to our testimony, unless you have a specific——

Mr. BEDELL. Yes; I want to know when you talked to them about possibly furnishing your services for this——

Mr. KELLEHER. Right. The first contact was made——

Mr. WELLS. Do you mean just with reference to the work we commenced on October 1?

Mr. BEDELL. I mean what ERA was doing.

Mr. WELLS. OK.

Mr. KELLEHER. They contacted us——

Mr. BEDELL. They contacted you?

Mr. KELLEHER. Yes; we never made any initial contacts. They contacted us.

Mr. BILIRAKIS. Excuse me, would the gentleman—who contacted you, SBA? SBA contacted you.

Mr. KELLEHER. SBA contacted us, yes, and they contacted us, we believe, at the beginning of July.

Mr. BEDELL. Early July 1983.

Mr. KELLEHER. Yes; of 1983. That is right.

Mr. BEDELL. And then what followed that?

Mr. KELLEHER. As I remember it, that was just a preliminary discussion, under which circumstances would we be able to take on

the work, would be willing to take on the work and so forth and so on.

Mr. BEDELL. Did you indicate——

Mr. KELLEHER. We indicated at that time, for example, we had some real reservations about doing the data entry part of the task because we weren't equipped to do that. We didn't have the staff in place and we weren't really interested in going out and hiring people to take on new contract work or anything like that.

We indicated that we were on the GSA schedule for providing time sharing to other Federal agencies, and within that structure, we were interested in talking to them.

Mr. BEDELL. When did you get an indication that they had a contract with them verbally or, when did you get that?

Mr. KELLEHER. As I recall it, in July we said we were willing to pursue doing the thing for them, and then it took them a long time to make a decision about whether or not we would actually do the work.

Mr. BEDELL. When did you start?

Mr. KELLEHER. When did we actually start doing the work?

Mr. BEDELL. Yes.

Mr. KELLEHER. The first weekly report that we gave them, and we have been doing weekly reports since we started doing the work, is dated September 23.

Mr. BEDELL. OK.

Mr. KELLEHER. When they finally made a decision, but I really am relying on memory. I don't have documents.

Mr. WELLS. If I may add, Mr. Chairman, we would not have been able to go past a certain point of preliminary discussion with them until August 15 simply because we didn't have an appropriation to exist yet. It wasn't until we got our appropriation that we could finally start talking turkey.

Mr. BEDELL. Mr. Yamada indicated that you came to him for some help on this, and asked him if he would contract to do some of the work or something. He said he couldn't.

Mr. KELLEHER. In the process of running the system last year, ERA redid the data entry portion of the system for their own purposes, and they didn't document that. When it was turned over to us, they turned over to us some profiles that they had entered, and these were all put on floppy disks with microcomputers. We had some questions about what had been their procedures. So we asked them to spend a day with us explaining to us what these new procedures were that they had developed and actually employed.

They did send a person over to spend a day with us after October to show us the new things that they had added to the system and how they ran them and so forth and so on. I don't believe they have billed us for that work.

Mr. BEDELL. Did you ask them to do other work which they felt they couldn't do or——

Mr. KELLEHER. No; we only asked them to spend sufficient time with us to explain to us the new things they had added to the system and their own procedures.

Mr. BEDELL. I take it from what you say, Mr. Wells, that if you exceeded the amount of the contract with them, you were just going to tell them, "Well, you have got to pay us more money or

we don't continue the work." At least, that is what I think your testimony says. Is that accurate?

Mr. WELLS. Well, let me make it more practical, if I may. At approximately 6 to 8 months from the beginning of the year, we would have to sit down and look at what we had billed so far and our estimate of what it would take to get through the balance of the year, running the system the same way we were running it at that time, or had been running it up to that date.

If at that point, it was our judgment that we were likely to overrun the ceiling, we would have to notify SBA and give them the choice of whether to change the ceiling or to ask us to stop running some of the ancillary programs, because some of the programs don't have to be run. There are many programs that ERA never ran the whole year they had the contract because they couldn't get to them.

Mr. BEDELL. OK.

Mr. Bilirakis.

Mr. BILIRAKIS. I have no questions.

Mr. BEDELL. We thank you very much for your testimony.

Mr. WELLS. Thank you.

Mr. BEDELL. If there are no further questions, our next witnesses are a panel from the Small Business Administration. I don't know just who all is here, but will the people from the Small Business Administration please come forward.

[The witnesses were sworn.]

TESTIMONY OF ROBERT A. TURNBULL, ASSOCIATE DEPUTY ADMINISTRATOR FOR RESOURCE MANAGEMENT, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY ROBERT L. WRIGHT, DIRECTOR, OFFICE OF PROCUREMENT ASSISTANCE; MARTIN TECKLER, ASSOCIATE GENERAL COUNSEL FOR REGULATION AND LEGISLATION; AND DELVIN D. DOHSE, CHIEF, CONTRACTS BRANCH, OFFICE OF EXTERNAL AWARDS

Mr. TURNBULL. Mr. Chairman, I am Robert Turnbull, with the Small Business Administration.

Mr. BEDELL. Why don't you all identify yourselves for the record here.

Mr. TURNBULL. Certainly. I have with me today Bob Wright, who is with our procurement assistance program; Marty Teckler, who is our Associate General Counsel for Regulation and Legislation; and Del Dohse, who is Chief of our Contracts Branch of External Awards.

If it pleases the committee, I would just as soon submit my statement for the record, as it is rather lengthy, and I think we all have some questions and answers to go through.

[Mr. Turnbull's prepared statement follows:]

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SBA U.S. Small Business Administration Washington, DC 20416

PREPARED STATEMENT OF ROBERT A. TURNBULL, ASSOCIATE DEPUTY ADMINISTRATOR FOR RESOURCE MANAGEMENT, SMALL BUSINESS ADMINISTRATION

Good morning Mr. Chairman. My name is Robert A. Turnbull. I am the Associate Deputy Administrator for Resource Management at the Small Business Administration. I am here to testify before this Subcommittee on various aspects of SBA's Procurement Automated Source System (PASS).

With me today at your request are: Mr. H. Robert Saldivar, Deputy Associate Administrator, Office of Minority Small Business and Capital Ownership Development; Mr. Robert L. Wright, Director, Office of Procurement Assistance and Mr. Delvin D. Dohse, Chief, Contracts Branch, Office of External Awards.

PASS is an automated source referral system operated by the U. S. Small Business Administration (SBA) to improve Federal Government prime and subcontract opportunities for interested small firms. Also, it serves to maintain a computerized inventory of small business productive facilities required by the Small Business Act.

Through a network of 125 remote terminals throughout the country, PASS is instantaneously responsive to the requests of government agencies and major corporations for profiles of potential bidders on contracting and subcontracting opportunities. It enables small firms registered in the PASS to have their capabilities readily available in response to requests from federal procurement offices or purchasing agents of prime contractors. Over 98,000 small business firms are presently in the PASS data base.

The objectives of the PASS are to:

- Increase bid opportunities and the number of government contract awards to small businesses
- Promote small business set-asides
- Refer small businesses to prime contractors for subcontract opportunities
- Increase the number of small businesses involved in Federal procurement
- Maintain a central, readily accessible, up-to-date file on small businesses and their capabilities

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- Provide SBA Procurement Center Representatives, Source Specialists and Subcontract Specialists with a resource in their efforts to assist the small business community

- Support other SBA programs.

Section 20(c)(1) of the Small Business Act, as amended, authorized funds to be appropriated for Fiscal Year 1978 for developing a small business source data bank. In September 1977, a competitive, small business set-aside contract was awarded to Systems Architects, Inc. (SAI), to develop and operate the system. The contract cost was $385,000 for a one year period. There were four one-year options to extend the contract. PASS has been operational since Octobe. 1978 and was under contract to SAI through Fiscal Year 1982 at the following cost - FY 79, $543,000; FY 80, $677,000; FY 81, $814,000; and FY 82, $876,000.

Public Law 95-507 amended the Small Business Act in October 1978. The subcontracting requirements of P.L. 95-507 gave PASS much additional impetus, especially as a tool for large prime contractors in their efforts to identify small and small disadvantaged firms for subcontracting opportunities. Hence, prime contractors as well as other federal agencies requested direct access to PASS and a cost-sharing program was established for new users.

At the request of GSA to "test the marketplace," the requirement to operate and maintain PASS in Fiscal Year 1983 was procured on a competitive, small business set-aside basis during Fiscal Year 1982. SBA issued 211 copies of the solicitation document and received 10 proposals. Upon completion of the technical evaluation, there were eight firms determined to be technically acceptable and two firms determined to be technically unacceptable. Two of the technically acceptable firms, SAI and Trulin, Inc., were determined to be other than small business by SBA and therefore ineligible for award.

Proposals were evaluated by SBA and a software certification test was run by ERA, the otherwise acceptable offeror, and witnessed by SBA technical evaluation personnel to verify the acceptability of ERA. The test was satisfactory.

A competitive, cost reimbursement contract in the amount of $673,948 was awarded to Executive Resource Associates, Inc. (ERA), September 22, 1982. However, the actual cost of the contract for Fiscal Year 1983 was $1.4 million. There were a number of reasons for this additional cost.

First, the then current data base was not delivered to SBA and in turn to ERA by SAI until ERA was six months into the contract. ERA claimed that the PASS was delivered incomplete, inaccurate and necessary documentation was missing. ERA claims that the computer program documentation did not match the programs actually delivered; and, performance characteristics of the Government furnished batch software, i.e., CPU run times, were not consistent with the Government estimate. These problems could have been more quickly resolved if the previous contractor had been cooperative. Unfortunately, and notwithstanding the terms of their contract with SBA, this was not the case. Secondly, unlike the predecessor contractor who owned and dedicated a computer to the SBA PASS, ERA entered into a timesharing subcontract for computer services. This resulted in costs far in excess of those anticipated by either ERA or SBA. These difficulties, in large part, added $700,000 to the contract.

Information Consultants, Inc. (ICI), one of the unsuccessful offerors, protested the size status of ERA by letter dated October 4, 1982, alleging that a joint venture existed between ERA and their subcontractor, Genasys Corporation. On November 23, 1982, SBA Region III upheld the protest of ICI finding that ERA was an affiliation by joint venture and other than small business for the PASS procurement. This decision was limited to this specific procurement action.

ERA appealed the size decision on December 3, 1982. The appeal was denied by the SBA Size Appeals Board on February 10, 1983, upholding the decision by Region III. ERA petitioned for reconsideration of the SBA Size Appeals Board's decision by letter dated May 6, 1983. The petition for reconsideration was dismissed by the SBA Size Appeals Board letter dated August 16, 1983.

The result left SBA with a small business set-aside contract awarded to other than a small business. The Federal Procurement Regulations, at Subpart 1-1.703-2(e), provide that following receipt by the contracting officer of a protest, the "... procurement action by the procuring activity shall be suspended pending SBA's detemination of the status of the protested bidder or offeror...." However, in this instance, the award of the contract to ERA on September 22, 1982, had been made prior to receipt by the contracting officer of the protest dated October 4, 1982. The Federal Procurement Regulations provide, at Subpart 1-1.703-2(d), that "If an award has been made prior to the time the contracting officer receives notice of the appeal, the contract awarded shall be presumed to be valid and any determination rendered by SBA concerning the small business status of the concern involved shall be considered in future procurements."

In light of this situation and the controlling regulations, SBA had two alternatives, to terminate ERA for convenience or to allow the contract, which by regulation was properly awarded, to stand.

At the time of the initial protest, ERA was in possession of a properly awarded contract, had been performing for two months of a 12 month period and the regional decision of the SBA was under appeal by ERA. As indicated, ERA had notified SBA that the PASS data base furnished by the Government was incomplete and that programs, source codes and system documentation were missing. For SBA to have contracted with another contractor at that time with the same alleged defective procurement package could not be justified. The contracting officer concluded that the contract should continue in the best interest of the Government in light of these facts and SBA management directed that the programs and documentation furnished to ERA be evaluated and that a package be developed for a competitive small business set-aside reprocurement. Our initial target award date for the reprocurement was not later than September 30, 1983. The realities of the procurement leadtime factor resulted in our final schedule showing award of a new contract one year later, in September, 1984, for Fiscal Year 1985 operation and maintenance of PASS.

This scenario led to SBA's decision to contract with the United States Railway Association (USRA) for operation and maintenance of PASS in Fiscal Year 1984.

USRA is a Government agency with a DEC computer and DEC expertise. In 1982, SBA employed USRA as an independent, third party DEC expert to validate the PASS software certification test which was used in the competitive selection of ERA for the Fiscal Year 1983 PASS contract. This resulted in USRA acquiring significant knowledge of PASS.

Based on the problems encountered by ERA, SBA arranged for USRA to test the batch and the search and retrieval subsystems of PASS. USRA was able to execute the tested systems, certify them to SBA and actually process a batch of 1,558 profiles in order to establish system run time. This experience gave us confidence that USRA could operate the system.

During the time the ERA size decision was under appeal, including the request for reconsideration by ERA (from December 3, 1982 to August 16, 1983), the SBA was actively considering available alternatives for Fiscal Year 1984 PASS operation. Alternatives considered were:

- o exercise the available option with ERA
- o initiate a competitive, small business set-aside procurement
- o use an 8(a) contractor
- o make a noncompetitive award to a small business
- o use a Government facility (USRA)

As a result of the size detemination that ERA in affiliation with Genasys as a joint venture was other than small, the frustration that ERA's performance was marginally satisfactory and the realization that the system cost was much greater than SBA believed it should be, it was decided that the exercise of the ERA option would not be in the best interest of the Government.

Sufficient time was not available in Fiscal Year 1983 to compete the contract for Fiscal Year 1984 service. Also, there was no valid basis for selection of any one firm over another for a noncompetitive award. Changing to an 8(a) contractor was not a viable alternative, again, until the condition of the programs and documentation could be verified. Being aware that USRA had and could successfully operate PASS, we chose that alternative. Hence, SBA and USRA agreed that USRA would operate PASS for Fiscal Year 1984, for an amount not to exceed $900,000 while SBA conducts the

Fiscal Year 1985 procurement. The agreement was effective August 1, 1983. Clearly, this agreement was to last for only one year.

We are carrying out our plans for a competitive, small business set-aside contract award for Fiscal Year 1985 operation of PASS. An integral part of our plan is to ensure that previous software problems and the connected problem of non-cooperation of the previous contractor not be repeated. Therefore, SBA has contracted with Creative Associates, Inc., an 8(a) firm, to design and develop an enhanced, state-of-the-art PASS. The solicitation package is scheduled to be released in June 1984. USRA will continue to operate PASS through Fiscal Year 1984 and transition to the successor contractor selected for Fiscal Year 1985.

Your invitation letter related concerns by users of PASS and those served by PASS that the system has not been performing up to its potential. In fact, the PASS search and retrieval system has never been down. In Fiscal year 1982, there were in excess of 28,000 searches made on PASS, with almost 252,000 small business sources being displayed. This same level search activity prevailed in Fiscal Year 1983 with almost 287,000 small business sources being displayed.

However, two areas of the PASS need improvement. First, much of the criticism of PASS, we believe, emanates from the frustration by firms unable to get into the data base. While a backlog of profiles to be entered did develop during Fiscal Year 1983, it has been almost completely eliminated as of January 13, 1984.

Secondly, there have been delays in obtaining the "anniversary update" profiles for updated entry into the system. USRA has run the first batch of "anniversary updates" and will continue this program throughout the fiscal year. By the end of this fiscal year the system will be in a completely current status. Prime contractors have been anxious that the outreach program, matching their data bases of small business subcontracting sources to those in PASS in order to expand the PASS by adding those not included, was not run during Fiscal Year 1983. USRA has tested out the program and initiated runs to bring the outreach system into a current status.

You requested in your letter that we be prepared to discuss the status of ERA as a small business. As a result of the size protest, there is some confusion about the eligibility of ERA as a small business firm. The decision by SBA regarding the PASS contract was that ERA, in affiliation with Genasys as a joint venture, is other than small. However, this decision applies only to that contract. The size status of ERA by itself has been reviewed by SBA and ERA remains eligible to self-certify as a small business.

Mr. Chairman, I do not believe there is much question that the progression of contract arrangements for operation of the PASS is complicated. However, SBA believes that we have been successful in maintaining PASS search and retrieval services on behalf of the small business community throughout this period. I have established a PASS Steering Committee, composed of high level agency management officials, to provide oversight to the development of and conversion to the enhanced system and to ensure its smooth operation. We are reviewing recommendations from PASS users, the GAO and SBA task groups so that we can benefit from their experience in redesigning the system. We are committed to a small business set-aside procurement on a competitive basis and remain convinced that USRA has provided valuable assistance in this endeaver in the best interest of the Government.

This concludes my prepared remarks. I would be happy to respond to any questions that you may have.

Mr. BEDELL. It would please us very, very much, I think. Since it is so late, if we could get right into the issues, I think we would appreciate that.

Mr. TURNBULL. If I could make one point, though, I know there have been a lot of technical questions that have come up in the hearing today, and I think some of those questions are answered in the statement, particularly when it comes to size standard regulations and things of that sort.

Mr. BEDELL. OK.

Mr. Olin.

Mr. OLIN. Let me run back to a few of the questions that we raised with some of the other witnesses.

The first question then, in the case of Mr. Yamada's firm, ERA, when you contracted with them, did you feel that this statement was accurate, that he made a full disclosure of his intentions to farm out work and enter into agreements with other firms to accomplish the commitments on the contract?

Mr. TURNBULL. I would ask Mr. Dohse to answer that, but let me say one thing at the outset. Mr. Olin, of course, as you know, the Small Business Administration does have small business set-aside contracts and we do monitor set-aside contracts for other Government agencies as well.

The system is such that small businesses come in and self-certify that they are small, and if the system was not that way, we would run into a great deal of problems and have many fewer contracts that would go to small businesses from the Government throughout.

The system is almost a self-regulating system where SBA does not tend to question whether or not a company is small if it self-certifies, unless there is a protest, but Del, if you could talk about the contract itself and what was presented by ERA, I would appreciate that.

Mr. OLIN. I am just asking about whether what he said about his information to you appears to be accurate or not.

Mr. DOHSE. To my knowledge and my recognition, the proposal stated that GENASYS was going to be a subcontractor and AMS a subcontractor, but it is a material acquisition. It is looked at as a material acquisition, as a supplier, like buying parts. They are buying strictly computer time.

Mr. OLIN. You are saying that you don't believe there was any misinformation or false information at that point?

Mr. DOHSE. Not to my knowledge.

Mr. TURNBULL. No, we don't believe that to be the case.

Mr. OLIN. Now, you gave this contract to ERA based on their being the low bidder, in that there wasn't any fixed-price bid. It was only an estimate.

How did you evaluate the bidders to determine who to give that contract to?

Mr. TURNBULL. Well, of the—all of the solicitation—all of the proposals that came in were evaluated technically first, and then, of course, we went to the lowest bidder and ran a certification test with SBA technical representatives there to see if, in fact, the test did work.

As to the procedures of the technical evaluation, I would like Mr. Dohse to answer that again, if he could.

Mr. OLIN. How did the ERA rank on the technical evaluation compared to others?

Mr. DOHSE. ERA?

Mr. OLIN. Yes.

Mr. DOHSE. May I refer to my contract negotiator, please?

Mr. OLIN. Yes.

Mr. DOHSE. They were No. 4.

Mr. OLIN. Why did you determine that they were the low bidder? How did you determine they were actually the low bidder in terms of the likely cost of the project?

Mr. DOHSE. The technical evaluation ranked everybody either technically acceptable or nonacceptable. At that point, when there were six—as I recall, there were six vendors still remaining technically acceptable, at which time, we took the low-price vendor and analyzed those costs and made award to the low-price vendor.

Mr. OLIN. Are you saying you didn't identify any significant difference in capability between the six you mentioned?

Mr. DOHSE. All those six were determined to be technically acceptable for the program proposed.

Mr. OLIN. OK. You proceeded, then, with the expectation that the year could be handled at the $600,000 figure, whatever the number was?

Mr. DOHSE. Yes, sir. The contract contains estimated unit prices for certain items of work, and as it has been discussed earlier at this hearing, the computer time and cost increased considerably over the estimates.

Mr. OLIN. The statement was made that all of the overruns were documented with documents in your hands, reviewed by you and approved. Is that the case?

Mr. DOHSE. To a certain degree, that is correct. Some of the costs are still under question. We are going through a final audit.

Mr. TURNBULL. At this point, Congressman, as with every contract, there is a final audit. We contract with DCAA to do our audits.

Mr. OLIN. Let's say, at least for the $1.2 million that you have paid for, or whatever the number is, all of those have been documented, reviewed and approved by you as legitimate dispatchers.

Mr. TURNBULL. If I could defer to Mr. Wright on that, I think that, in fact, his office did do some analysis of some of the cost overruns at a particular given time to justify them.

Mr. WRIGHT. Any contract payment is considered an interim payment pending final audit, and there is always, in each instance, a final negotiated price at the conclusion of a contract.

Mr. OLIN. It looks like you are going to pay 114 percent of the original estimate.

Mr. WRIGHT. Something very close to that, yes, sir.

Mr. OLIN. How do you feel about that?

Mr. TURNBULL. Well, we don't feel very happy about it.

Mr. OLIN. That is a very unsatisfactory situation.

Mr. TURNBULL. I think if we can refer back to the software itself. A company had designed and operated a system for 5 years previously. That company had a computer which it owned and dedicated

to the PASS system. I believe, because of that, we did not see a great deal of overrun in computer time.

ERA came along and bid on the contract, bid on some historical documentation that we had collected from the previous contractor. They then went out and actually purchased computer time from AMS. This is this thing that was in question this morning.

They found that the programing itself, and certain parts of the program, took a lot longer to run than anybody had ever anticipated.

Mr. OLIN. They said they had paid AMS something like $600,000. The total is going to be $1.4 million, so they still spent $140,000 or something like that went to the other outfit. They still spent more than the total contract amount without that computer time so ERA itself went way over the money that it had expected to spend for its work.

Mr. TURNBULL. The major portions of the cost overrun, Congressman, if I may, as documented in the GAO report, come in computer services or computer run time. That is 364 percent. I do believe that it is a software problem and we intend to address that software problem by actually designing a new system using an off-the-shelf generic data base package and modifying it to fit the specifications of PASS.

Mr. OLIN. Let me ask one more question and then I will give the other gentlemen here some time.

The statement was made that in the case of ICI, who entered an initial bid higher—that is, that initial estimate higher than ERA—that they were party to some additional information with regard to the quality of the software and its difficulty. Is that true?

Mr. TURNBULL. My understanding of that, Congressman, is that ICI was actually given a $10,807 contract to run those programs prior to the contract award to test out the programs if you will.

Therefore, they did have information that was not available to ERA or some of the other bidders that bid on the contract.

Mr. OLIN. This is hardly a case of fair bidding, then, in that case.

Mr. TURNBULL. I would say that they were more familiar with the system than some of the other contractors might have been who bid.

Mr. OLIN. The other aspect of it, you might assume that they knew more about what the probable costs were going to be and you might have been better off doing business with them with 20/20 hindsight.

I am really questioning your policies and procedures with regard to awarding contracts in a case where you say that the vendors are equal, but certainly software vendors aren't equal. In this case, it was further complicated by the fact that one bidder had extra information.

Mr. TURNBULL. I think that is correct. Perhaps if I could turn it over to Mr. Wright again, he might be able to explain why we did that.

Mr. WRIGHT. I don't have knowledge of this procurement specifically, but procurement regulations do require that when you have a solicitation, you explicitly set forth your evaluation criteria and weigh it. Your technical evaluation is done first and then your cost evaluation, and it is——

Mr. OLIN. You had no waiting on a technical evaluation——

Mr. WRIGHT. I don't know about this, sir.

Mr. OLIN. The statement was made that the six to qualify were considered equal from a technical standpoint, only the dollars——

Mr. WRIGHT. OK, I was trying to respond to your question that normally it is pretty well predetermined who will get the award and the evaluation criteria would be established. It is not that there isn't room for judgment, but it pretty well falls out.

Mr. BEDELL. Would the gentleman yield? I am not sure I heard you right. Did you say it was predetermined as to who would get the award?

Mr. WRIGHT. No; I said that the evaluation criteria, if properly structured, could easily lead you to almost a simple determination of who gets the award. Now, if your evaluation criteria is faulty, if you put too much emphasis on technical and not enough on cost or the other way around.

Mr. OLIN. Of course, in this case, the cost is only an estimate. It has no teeth to it. There are no consequences except to you.

Mr. WRIGHT. That is always the case——

Mr. OLIN. That is not a bid in the ordinary sense.

Mr. WRIGHT. OK, but another point that hasn't been recognized, even had we gone fixed price, and say that the successful contractor had given us a fixed-price offer, even as ICI did, without knowing what that—what qualifications are on that, you don't know what you are talking about, so had we given ERA a fixed-price award, within 2 months, as soon as they came to the conclusion that the Government documentation, the programs, the data we furnished them were defective, they obviously would have come back to us with a claim for more money.

Mr. OLIN. Are you in a position now, as you contract this thing out to the next vendor, of going to a fixed-price firm bid?

Mr. TURNBULL. I hope to be, Mr. Olin. We are looking at that very seriously. I am a firm believer that fixed-price contracts are the proper way to go in Government contracting, as I would in a private business, and that cost overruns, of course, are unacceptable.

We are looking at that. I think that we might have to go to a unit pricing mechanism on a sliding scale. There are certain things like the number of profiles that come in that are hard to get——

Mr. OLIN. Unit price can be considered a fixed-price basis with only volume varying.

Mr. TURNBULL. That is correct. We are attempting to do everything we can when we compete the next small business set-aside for this contract, which will be this year, to work it into a fixed-price contract if possible.

Mr. BILIRAKIS. Would the gentleman yield?

Mr. OLIN. I will terminate my questions at this point, Mr. Chairman.

Mr. BILIRAKIS. I certainly didn't intend——

Mr. BEDELL. Mr. Bilirakis, your turn.

Mr. BILIRAKIS. Well, all right, then, I will ask the question that I was going to ask.

You are saying that after 5 years of experience with SAI, that the SBA was still not prepared to narrow down the criteria necessary in order to be able to let out bids for fixed-price contracting.

Mr. TURNBULL. That is correct, sir. We had a very difficult problem. As a matter of fact, as I stated before, SAI had a computer that it owned which it dedicated to the PASS system. Therefore, it did not have to go out and actually rent computer time to run this system. I think the biggest problem that we have seen under the ERA situation is that they actually went out and had to rent computer time, did not own a computer of their own, and therefore, when they received software that was, in my estimate, inefficient, the computer times, the computer run times actually skyrocketed.

Mr. BILIRAKIS. Why didn't we know, after a period of a 5-year history, that the software was not adequate, that it was all messed up? Where have we been? You know, we are guardians of the taxpayers' dollars here, I should think, and the small businessman, if you will.

Mr. TURNBULL. Quite correct. That contract for the PASS system was operated by one company for approximately 5 years.

Mr. BILIRAKIS. Yes.

Mr. TURNBULL. That company gave us prices which we felt to be reasonable, therefore, I think that the software wasn't questioned perhaps as much as it should have been, or wasn't perhaps tested as perhaps it should have been. The system was running. The search and retrieval part of the system has never been down; it has always been up serving the small business community. There perhaps was some management oversight that we should have taken, perhaps, a little closer look at what SAI was doing, but it exploded, when, in fact, the contract went to a new contractor.

Mr. OLIN. Would the gentleman yield there?

Mr. BILIRAKIS. Sure.

Mr. OLIN. Excuse me for breaking in, but on that point, you say the system was running.

Mr. TURNBULL. Yes, sir.

Mr. OLIN. You were satisfied with the price, but how well was it running? It probably wasn't working at all.

Mr. TURNBULL. Well, actually, it was running very well. The search-and-retrieval system has always been running.

Mr. OLIN. The service to the various terminals around the country were- -—

Mr. TURNBULL. It was good, it was good service.

Mr. OLIN. Time delay was good, accuracy of the data was good.

Mr. TURNBULL. Well, as you stated it before, Congressman, actually the 45-second time is probably slow by state-of-the-art standards, but the times were good.

Mr. OLIN. It is incredible that you could go from that situation being very satisfactory and suddenly go to something with a chaotic mess to a new vendor. I don't understand that.

Mr. BILIRAKIS. That is the point, isn't it?

Mr. OLIN. Thank you for yielding.

Mr. TURNBULL. If I could make a comment, there was a lack of documentation and a lack of cooperation which came from SAI, the former contractor who developed the system and ran it for 5 years, which caused a great amount of difficulty for ERA and SBA.

Mr. BEDELL. Would the gentleman yield?

Mr. BILIRAKIS. Sure.

Mr. BEDELL. I want to be sure we have this straight. You are testifying that in your opinion, up until the time the ERA took over the program, the program was operating well and the names were being entered on a system and the program was operating well. That is what you are testifying if I understand you correctly, and I want to be sure that is what you are saying.

Mr. TURNBULL. To the best of my knowledge, Mr. Chairman, the system was up and running. We had, of course, complaints, as there are with all computer systems, but it was up and running. Names were being input, users were getting information out of the system, and on that basis, I would say that the system was up and running and was running fairly well.

Mr. BEDELL. You were happy with it?

Mr. TURNBULL. I would defer to the contracting office's technical representative, Mr. Wright, if he knows of any major problems that we encountered with SAI.

Mr. WRIGHT. I do believe that the feelings about the system were good and that the system was working in the way intended and something that I think is of particular significance, in fiscal year 1982, SAI, the predecessor contractor, performed 28,600 searches, displaying 252,000 small business sources for respective opportunities. In fiscal year 1983, when ERA operated the system, we had over 28,000 searches, which is a comparable number of searches, displaying almost 290,000 small businesses. So the system itself, I believe, continued to operate in the same way and as effectively as it always had.

The true criticism that we need to deal with, the problem we had, was getting the new companies and new registrants into the system. The ones that we had in there were available, they were referred at the same level they had been in the previous year.

Mr. BILIRAKIS. First of all, it has been testified that the software was a mess when it was transferred over to ERA. Now you say that everything ran well, so I don't know how it could have run well if the software was a mess.

Mr. WRIGHT. I didn't say everything did. What I meant to say was the search-and-retrieval system ran well. Now, how that differs——

Mr. BILIRAKIS. What did not run well, Mr. Wright?

Mr. WRIGHT. All right, the batch update system, for example, which is getting the new sources into the data base; the anniversary update system, which is pulling those out on a 1-year basis to give them an opportunity to update their profiles.

Mr. BEDELL. Would the gentleman yield?

Mr. WRIGHT. At this time.

Mr. BILIRAKIS. Yes.

Mr. BEDELL. You see, what has me so confused is, we have testimony indicating that the bids were wrong because the system was such a mess, and the low bids were not reasonable because the system was such a mess, and that the supplier found that to be the case, and that names weren't on the system, and you, as the head of SBA, say you think everything was running fine. I don't see how it can help but be terribly confusing to the rest of the committee,

and if that is the attitude, if you think everything is fine when we have all this testimony indicating such a terrible problem, then we have a worse problem, I think, than we thought we had.

Mr. TURNBULL. Mr. Chairman, if I may comment. We at SBA obviously don't think everything is fine.

Mr. BEDELL. It is what you testified, that you thought at the time it went over that things were operating well and you were happy with the supplier. If that isn't your testimony, you had better change it because I think that is what the record will show quite clearly.

Mr. TURNBULL. Well, I hope the record does not show that, and if it does, perhaps I should clarify what I was saying.

Mr. BEDELL. I think you better.

Mr. TURNBULL. The search-and-retrieval system has been up and running since 1978. It has had users who have been operating on the system, new profiles have been put into the system consistently until there was a considerable backlog created in fiscal year 1983.

Mr. BEDELL. All right, is that the problem? There was a backlog created?

Mr. TURNBULL. That is correct.

Mr. BEDELL. As of when?

Mr. TURNBULL. Fiscal year 1983.

Mr. BILIRAKIS. Why did that backlog accumulate?

Mr. TURNBULL. Because the batch updating program, it is my understanding, takes an incredible amount of computer time to run. My only thought at this time is that because SAI owned a computer which could run day in and day out and they would not have to pay a per-hour charge, then they, in fact, were eating some of the costs, for the lack of a better term.

Mr. BILIRAKIS. Mr. Turnbull, I don't have—I believe all of the members received an analysis of last year's office costs and whatnot just recently and I glanced at it the other day and I don't have it with me, but my legislative director tells me that our computer time, which we lease at, what is it, $1,200 a month or something like that, which includes the software, and the salary that I pay the young lady who runs our computer, we have approximately 40,000 names in our computer and we have sent out well over 100,000 communications based on inquiries on legislation and that sort of thing—and that does not include all of the other names—the other communications we sent out. That has cost the taxpayers about $25,000 in the year 1983, which basically is a fairly constant cost, as I understand it. That is what I expect to pay in 1984 unless I change the computer operator, which might mean a change in salary.

As I go back over these figures, I see that SAI billed approximately $3.3 million. Now, this is the contract cost figures that go into your testimony. Are these actual dollars that we pay them? In other words, they didn't overrun, is that right?

Mr. TURNBULL. Yes, sir, those are actual dollars subject to final settlement.

Mr. BILIRAKIS. Those are actual dollars, all right, so that is approximately $3.3 million, and then we paid ERA—and I wish we could come up with a better term there—$1.4 million, and now apparently we have paid approximately $250,000 to——

Mr. BEDELL. USRA.

Mr. BILIRAKIS. USRA. We are in the neighborhood of approximately $5 million for a period of maybe 6 years, approximately a little over 6 years. How many names do we have in that data bank?

Mr. TURNBULL. About 98,000.

Mr. BILIRAKIS. 98,000 names in that data bank.

Mr. TURNBULL. It is much more than names, though.

Mr. BILIRAKIS. Well, all right, I know there is the search and retrieval and there is an additional service there but probably no more so than what Chairman Bedell's office does and Congressman Olin's.

How can we justify this to the taxpayers? We go back to the taxpayers and we tell them to tighten their belts and accept COLA deferments on their pensions and just go on and on and on and then we do something like this. How can we do this?

Mr. TURNBULL. Congressman, I can only answer by saying that we obviously have recognized the problem. Paying $1.4 million in fiscal year 1983 for the operation of the PASS system is unacceptable. We have deemed it unacceptable and are working on plans to reduce the costs of that system and create more efficiencies. We actually want to go to a state-of-the-art system. As has been testified to here previously, the state of the art has passed the present PASS software probably years ago.

I cannot compare the PASS system to the computer system that you use in your office, but we are working——

Mr. BILIRAKIS. Well, obviously I have oversimplified it and I am sure that what you all do is more complex and sophisticated and that sort of thing, but still, there is a relativity there. There is no question about it, and we do basically the same thing. We search and identify and retrieve and that sort of thing.

You know, it is another example, Mr. Chairman, of a good concept which has gone completely haywire and, you know, I submit, sir, we have had the various companies up here and put them under fire and the problem lies with the SBA and our procurement system. It goes right back to the thing that you and I experienced a few days ago on the spare parts. It goes back to our procurement system and SBA.

I have nothing further. I tried to make a point there.

Mr. OLIN. Mr. Chairman.

Mr. BEDELL. Mr. Olin.

Mr. OLIN. Could you refresh my memory as to why the SAI went out of business or is not being used? Did they go out of business or——

Mr. TURNBULL. No; they did not go out of business. In the first place, GSA asked us to test the marketplace, so to speak, and go out with a contract because the contract had been performed by the same company for 5 years.

Mr. OLIN. You went out for bid in the hopes of improving your situation?

Mr. TURNBULL. That is correct.

Mr. OLIN. Something that cost less.

Mr. TURNBULL. That is correct, and SAI actually was a bidder on that contract.

Mr. OLIN. What did they bid?

Mr. TECKLER. I don't think we have the information available.

Mr. TURNBULL. I should submit, they were found to be other than small business on this procurement, as was another company, Trulin, Inc.

Mr. OLIN. They weren't qualified, then?

Mr. TURNBULL. They were not qualified because they were found to be other than small business.

Mr. BEDELL. Can we have the information of what they bid?

Mr. TURNBULL. Hold on, Mr. Chairman. Do you have that?

Mr. TECKLER. Can we make that information available to the chairman by written submission, rather than make it available in a public forum. I believe it is probably proprietary information, Mr. Chairman.

Mr. BEDELL. Those aren't made public, the bids are not made public?

Mr. TURNBULL. No.

Mr. TECKLER. Not the dollars. We would be glad to furnish it to the committee.

Mr. BEDELL. Yes; we would like to have it furnished.

Mr. TECKLER. Be glad to do that.

[The information is in the subcommittee's files.]

Mr. OLIN. The point I am trying to get at here is that you had a very satisfactory situation, working fine, and decided to improve the situation by going out for competitive bids and you ended up with a disaster on your hands. It would indicate to me that SBA's knowledge of what was going on at that satisfactory vendor is inadequate to be able to structure a bidding situation that is going to succeed.

I can't understand why in that case you wouldn't have gone out for very firm contracts if something is working perfectly. You then were able to define it well. You knew the state of the data entry, how much backlog there was. You knew exactly what was being done. You had certain systems that were not functioning, but they could be put aside and handled separately.

Why you ended up with an open-ended contract is beyond my comprehension, given what you have described.

Mr. TURNBULL. Well, I should state that I don't believe the system was ever running perfectly, as most computer systems never do, but without a doubt, the SBA had bad historical information from the previous contractor and there is absolutely no doubt about that. The problems in the software, the lack of documentation, and moving that software to a new contractor did create incredible problems.

Perhaps Del Dohse may be able to speak to why we went with something other than a fixed-price contract in this case.

Mr. DOHSE. Yes; the contract had estimated unit prices on most units of service with a limitation liability set forth in the contract, which constitutes a ceiling.

Mr. OLIN. Did you have fixed quantities, also?

Mr. DOHSE. It had estimated unit prices and estimated quantities on certain items. The computer time, if I recall correctly, only had total estimated cost.

Mr. OLIN. You didn't pin down unless the computer running time was going to be——

Mr. DOHSE. There was no way we would know how much computer time they would use.

Mr. OLIN. You knew what you were paying SAI, the total.

Mr. DOHSE. Excuse me.

Mr. OLIN. You knew the volume of names and transactions going through there.

Mr. DOHSE. There were estimates in the contract.

Mr. OLIN. But you didn't firm those up and put any penalties on it to the bidder?

Mr. DOHSE. The contract was a cost-plus fixed fee which had a limitation of liability in at the time when the contractor reaches 80 percent of the cost incurred in the total contract, he has to notify the contracting officer that he has reached that and so management can make a decision if they feel they want to proceed, talk about a shutdown, and so forth.

It began at the first time when the contractor, ERA, reached the 80-percent mark, notify the contracting officer, and there was anticipated overrun at that time and management reviewed the situation and determined that the PASS system must keep running to serve the small business community and funded the overrun.

Mr. BILIRAKIS. Mr. Chairman, would you yield at this point?

Mr. BEDELL. Yes.

Mr. BILIRAKIS. You have indicated that you are contemplating redesign.

Mr. TURNBULL. We are moving ahead with redesign at this point.

Mr. BILIRAKIS. You are moving ahead with redesign.

Mr. TURNBULL. That is correct.

Mr. BILIRAKIS. All right, now, you are going to reach a point of what, determining specifications.

Mr. TURNBULL. That is correct.

Mr. BILIRAKIS. And what-not, and then go into the bidding process?

Mr. TURNBULL. That is correct. The contractor who is designing the new system, which is comprised of purchasing a generic data base——

Mr. BILIRAKIS. There is a contractor designing a new system now?

Mr. TURNBULL. That is correct.

Mr. BILIRAKIS. You have let a contract for design of a new system?

Mr. TURNBULL. Yes, sir.

Mr. BEDELL. Was that a bid?

Mr. TURNBULL. It has been let to an 8(a) company.

Mr. BILIRAKIS. Was that on a bid basis?

Mr. TURNBULL. No, sir, it is a sole source——

Mr. BILIRAKIS. Sole source.

Mr. TURNBULL [continuing]. Through the 8(a) program.

Mr. BEDELL. Would the gentleman yield?

Mr. BILIRAKIS. Yes, sir.

Mr. BEDELL. How much of a check was made as to whether this firm was competent to do that? Mr. Wright, you didn't check the other. Did you check this?

Mr. TURNBULL. This firm does contract work for the SBA presently in its overall computer operations, and was deemed to be competent. We have had good experience with this company.

The company that is designing this system is also writing the request for proposals.

Mr. BILIRAKIS. Mr. Turnbull, this would be in the fourth firm, whichever firm that you let this redesign system to, would be the fourth firm on PASS.

Mr. Chairman, I suggest that we take a closer hand in what is happening on this, the redesign of it, as well as the letting of the future contract, the redesign contract, if you will, because what is to insure that the same thing is not going to happen all over again, just more millions going down the drain.

Mr. BEDELL. Is this new firm the one that is handling your data base for your loan portfolio?

Mr. TURNBULL. They are doing some work with our computer operation. That is correct.

Mr. BEDELL. And are you quite pleased with the way your loan portfolio is on the computer and the information you have on it and that sort of thing?

Mr. TURNBULL. Well, the Director of Computer Sciences in evaluating Creative Associates, which is the 8(a) firm that will be designing this system has had very good experience with this company.

Mr. BEDELL. That is not my question.

Mr. TURNBULL. Computer programing.

Mr. BEDELL. Are you pleased with the information that you have and the data you have on your loan portfolio?

Mr. TURNBULL. I think that the data is up to date, Mr. Chairman. I think that there are some enhancements that we can make to our computer system and that we are working on at this time.

Mr. BEDELL. But you are satisfied with the computer system you have for it keeps track of your loan portfolio and how it is operating.

Mr. TURNBULL. No, sir, I am not satisfied with our computer system at all and we are moving forward to——

Mr. BEDELL. How much did the firm you contracted with have to do with the programing and software as it affects that program?

Mr. TURNBULL. I can't answer that question I can get you that information——

Mr. BEDELL. Wouldn't you think it would be a good thing to know if you are contracting with them for something else when you are not well satisfied with the way it is working now?

Mr. TURNBULL. I can only rely on my Director of Computer Sciences, who has been very satisfied with the work that Creative Associates has performed.

Mr. BEDELL. You don't think it is your responsibility to check to see whether he is right or not? This is not a minor thing. Your loan portfolio is pretty important—it would seem to me and SBA. Do you feel that is the way you should operate, just ask him, if he is happy with the way everything is on the loan portfolio, and if he is, you don't worry about it?

Mr. TURNBULL. No; but I have to rely on him for advice and guidance when it comes to technical computer matters as I am not a technical computer expert, Mr. Chairman.

Mr. BEDELL. We are not talking about technical computer matters; we are talking about your loan portfolio. I have had staff look into this and I can tell you, they are concerned as whether or not you believe that the information you have on your loan portfolio is up to date and adequate, and yet you feel that the taxpayers should not be concerned about what information you have on your loan portfolio.

I think that is your responsibility. I don't know how the rest of the committee feels. I would think that if you are not satisfied with it, you would think a while before you hired somebody to set up another program who had been involved in the setting up of the program that you are dissatisfied with. Now, I don't know if that is the case, but if it is, I think the committee would be somewhat concerned.

Mr. TURNBULL. Well, I should say that I am quite satisfied with most of the data that we have on our loan portfolio. The thing that I am not satisfied with is we can enhance our computer systems to give us better access to that data in many different formats. We are moving forward to do that and converting a system which is quite antiquated into a data base management system. I cannot tell you at this point what Creative Associates is working on particularly in the SBA.

Mr. BEDELL. OK.

Mr. OLIN. Mr. Chairman, could I ask a question?

Mr. BEDELL. Of course.

Mr. OLIN. I want to ask one first that is not related to this, and then I will come back to what we have been talking about.

The USRA people said that they expected that their billing to you this year would be in the neighborhood of their estimate, $900,000. They are running currently at about maybe possibly at a million. How much money are you paying to the other party that does the data entry work? What is their annual cost expected to be?

Mr. TURNBULL. Del, can you answer that question?

Mr. DOHSE. I don't remember exactly, but I think the contract is for about $150,000, in that neighborhood, and I don't remember the term of the contract, either.

Mr. OLIN. Is that an annual estimate, $150,000?

Mr. DOHSE. That is the total contract amount. I don't know how long the contract is going to run. I guess it is through September 30, when the railroad contract——

Mr. OLIN. Do you know what your payments to them in the first quarter has been?

Mr. DOHSE. No, sir, not without my file.

Mr. OLIN. Yes.

Mr. TURNBULL. Be glad to get back to you with that information.

Mr. OLIN. I will get off of that.

Back to the GAO report, GAO made a series of recommendations, the last of which says that they recommend that the administrator of SBA defer making any hardware or software decisions on a new system until the SBA, one, analyzes the current functional requirements and evaluates the current system's ability to meet these requirements, and two, identifies alternate system approaches to meeting these requirements, and three, performs a cost-bene-

fit analysis of each approach to use as a basis for any further redesign efforts.

There were three or four other recommendations. It says SBA generally agrees with these findings and recommendations. Is that the case?

Mr. TURNBULL. No; it is not.

Mr. OLIN. You do not agree.

Mr. TURNBULL. Not in this recommendation, no. We had a system that was running at $1.4 million, which is wholly unacceptable. We needed to move on and find a system that would serve the small business community at a lesser cost. That would be a more state-of-the-art type of system.

Mr. OLIN. Apparently with your present deal in 1984, it is costing you somewhere around $1.1 million or so.

Mr. TURNBULL. That is correct.

Mr. OLIN. Not $1.4. You improved yourself a little. What are you expecting that this new system will cost?

Mr. TURNBULL. We are expecting that the new system will run somewhere around $600,000 a year.

Mr. OLIN. What the GAO is saying is that they are not so sure that you have any right to be confident in that expectation. I guess that is the way I am reading it, and Mr. Chairman, it seems to me that based on this recommendation, we might do well to have another hearing a little bit later on as time passes to just probe into the situation before the next change is made. The next change is going to be made in October 1984.

Mr. TURNBULL. That is correct. I agree.

Mr. OLIN. If we do it wrong, we are going to end up with a mess again.

Mr. BEDELL. Exactly. Would the gentleman yield?

Mr. OLIN. Yes.

Mr. BEDELL. What is your contract with this firm to evaluate this or make a proposal? How much is it for?

Mr. TURNBULL. The latest dollar figures, I don't have. Del, do you have those figures?

Mr. DOHSE. No, sir.

Mr. BEDELL. You don't know how——

Mr. TURNBULL. It was approximately $260,000, Congressman.

Mr. BEDELL. Just to evaluate it and consider what should be done.

Mr. TURNBULL. No; this was to design the system.

Mr. BEDELL. I can tell the committee that the people I have talked to think that the chances of this being able to work at that timeframe are not very great.

Now, they may not know what they are talking about, and we don't have them before us as witnesses right now, but at least some of the people that I have talked to that have some knowledge on this. These people agree 100 percent with the GAO report. You have got everybody else disagreeing with you apparently, but you are going ahead with some new system and you may end up in a bigger mess than you would be in with the old one that you say is working well, or you told us was working well, if I understand it.

Mr. TURNBULL. Well, I should say we have a two-track system going. The USRA has been doing a good job for us in operating and

maintaining that system and has been working out some of the quirks in the software, as well as we have this redesign system going. So there are actually two separate tracks that are going for contingency purposes.

Mr. BEDELL. Are you through, Mr. Olin?

Mr. OLIN. I am.

Mr. BEDELL. What are you going to do? USRA has indicated they are only going to run for the 12-month period or so? What are you going to do then?

Mr. TURNBULL. If, in fact, we don't have a redesign system but I have every confidence that we will have a redesigned system. If we don't, there is the system that is running on the DEC computers at USRA that we will be able to rebid.

Mr. BEDELL. Does this committee have anything to say about whether you go to the redesigned system or not? We are not computer experts. I think Mr. Olin has some knowledge, but I don't think I have ever known of a computer program ever going in when it worked the way they said it was going to when you first used it and you have had all these troubles. I would think you would think quite a while before you would jump out of the frying pan into another problem, if you really have it working.

Mr. TURNBULL. I understand what you are saying, Mr. Chairman. It is very difficult to hesitate too long and do a year-or-two study or analysis which GAO might recommend, and have a system that is running to the cost of $1.4 million to the taxpayer, which is wholly unacceptable to us.

Mr. BEDELL. Well, that may be, but if you end up with the one that is costing $2.6 million, I think that would be more unacceptable to some of us.

Mr. BILIRAKIS. The $4 million came as a result of your saying that the previous system is unacceptable, so, you know, this could be a steamrolling effect.

Mr. BEDELL. I think the committee is going to have to determine what we should do further in regard to that, but at least you know there is some concern.

I do have some questions, if I might. Who handled the negotiations with USRA?

Mr. TURNBULL. I believe that was Robert McDermott, actually, who is no longer with us, but Bob, were you involved in this?

Mr. WRIGHT. I have a lot of familiarity with it, yes, sir.

Mr. BEDELL. OK, would you tell how that occurred? Apparently you let out an invitation for bids and then changed your mind.

Would you tell us how that came about.

Mr. WRIGHT. Yes, sir, I am——

Mr. BEDELL. There is some discrepancy and we need to straighten it out.

Mr. WRIGHT. I don't think I have specific dates but at the top of page 9 in the prepared testimony, it shows various options that we considered that we had available to us and this is at the point in time that there was a management decision made at SBA that we would not exercise the ERA option.

There were two decisions made, the first being that the award was proper, notwithstanding the finding of size, but technically, in

accordance with the procurement regulations, the award was proper.

Mr. BEDELL. To ERA?

Mr. WRIGHT. Yes, sir. The decision was made to allow that award to stand for the remainder of the fiscal year, but also that the option in the contract for the second year would not be exercised.

Mr. BEDELL. This was after the——

Mr. WRIGHT. After the size appeal——

Mr. BEDELL [continuing]. The courts, or whoever it was, had ruled that it was improper, is that right?

Mr. WRIGHT. Yes, sir.

Mr. BEDELL. Then you decided that it was proper after that.

Mr. WRIGHT. No, sir, I am saying that by procurement regulations, which are not SBA regulations, by the way, specify that if the contracting officer becomes aware of the protest after the award is made, then the award shall be considered valid, if the decision goes against the contractor receiving the award.

Mr. BEDELL. So you have testified that you do not feel that there is self-certification; it is not up to you to investigate as to whether the person is a legitimate small business firm, is that right?

Mr. WRIGHT. That is a contracting officer's responsibility, if he has reason to question it.

Mr. BEDELL. Well, I thought that you indicated that you felt it would be too much trouble for you to check to see if they are small businesses. They self-certify and you depend upon that for the policing mechanism, is that right?

Mr. TURNBULL. No, sir, that is not correct. If, in fact, it is brought to the contractor's attention by one——

Mr. BEDELL. I have to tell you, I am having a heck of a time, because it seems to me you tell us one thing and then we question you and you come back and say something else. I think that the testimony will clearly show that you testified earlier that you depended upon the self-certification process to determine whether people were small businesses because it would be too much of a chore for you folks to try to confirm that on all cases.

I think that is what it will clearly show if you will get out the testimony. Now, if that is not the case, you were under oath; you shouldn't have testified that way because you get us all confused here.

Mr. TURNBULL. Well, I will obviously read the testimony with great interest. I believe I testified that we do rely on self-certification for size and small business set-asides and that we also rely on a self-regulating process of a protest from another firm. Although it is, obviously, the contracting officer's responsibility if it comes to his attention, or if there is something presented to him in documents that would make him think it is other than a small business, to declare it such, as we did in this case, Mr. Chairman, with SAI and Trulin, Inc. We declared both of those to be other than small for the purposes of——

Mr. BEDELL. I think that confirms what you testified before, that if you request for bids for small business people the people bid and somebody gets the bid, and they are certified as a small business. Nobody complains—or even if they do complain, either way—you

accept it because you accept their certification unless somebody questions it prior to the acceptance of the bid. Is that correct?

Mr. WRIGHT. If there is a question, or if there is anything in the proposal that would indicate to the contracting officer that it is other than a small business.

Mr. BEDELL. So they do that and they get the bid. If I understand your testimony, the situation then is such that if it is questioned at a later date, and it is shown that they were wrong in certifying, and they really were not a small business, the regulations still show that they are a small business—you still are supposed to let them go ahead and perform the contract, but not renew it. Is that correct?

Mr. WRIGHT. If you could think of our contracting activity as something other than SBA in this light, and that our contracting office conforms to the Federal procurement regulations as DOD, Energy, and other agencies do——

Mr. BEDELL. Nobody is questioning that.

Mr. WRIGHT. First we have an SBA policy, and then they are implemented into the procurement regulations—the companies are self-certifying that they are, in fact, small business. If the contracting officer or a protesting contractor questions that, the contracting officer does not make that decision. That is referred to the SBA region, and it is a different arm that is making that decision.

Mr. BEDELL. It has nothing to do with the question I am asking. That is fine, what you are saying, but the question I am asking is, if I am not a small business firm, and I certify that I am a small business firm.

Mr. WRIGHT. Yes, sir.

Mr. BEDELL. Then, under those circumstances, I have been able to certify and get that contract, and I am able to keep that contract until the next letting of the contract.

Mr. WRIGHT. If the award has been made to you before the protest, or before the contracting officer is aware of it.

Mr. BEDELL. I don't know how Mr. Bilirakis feels about it, but if that is the case, then it seems to me you have a much greater responsibility to check to see that it is a small business firm because if anybody can certify to that and be assured that they will still have the contract for the first year—supposing it is just a 1-year contract, I absolutely have that contract, I absolutely have that contract, even though I am not a small business firm, and you don't feel, apparently, that it is your responsibility to check to see that their self-certification is accurate.

I see that as a serious problem, Mr. Bilirakis. I don't know how you feel about it, but it seems to me you are encouraging people to self-certify that they are small businesses even if they are not, because then they can get a contract for a year which they would not otherwise be qualified to get.

Mr. TURNBULL. Mr. Chairman, if I could mention something. Of the SBA set-aside program, which is obviously a governmentwide program where government agencies set aside contracts for small business, and where companies come in and self-certify for those contracts, it is a very important program to the small business community, and I wouldn't say that there should be any lessening of a duty on the contracting officer's part to assure himself, as best

he can, that this is, in fact, a small business that is competing for a small business set-aside, but in the same token, I would not want to limit the ability of the small business community to compete on a greater percentage of Federal contracts throughout the years.

Mr. BEDELL. OK. ERA testified that they, indeed, let you know that they are going to use these subcontractors. Is that right?

Mr. TURNBULL. That is correct.

Mr. BEDELL. Did you do any checking in regard to those subcontractors?

Mr. DOHSE. The contract negotiator said, yes, he did.

Mr. BEDELL. OK. You did know, apparently, that they were not going to use their own computers and they are going to contract out for a large part of what was to be done.

There were others—you had four or five bidders, I guess, that you felt were properly qualified.

Mr. DOHSE. Six.

Mr. BEDELL. Were any of those bidders going to do the work themselves rather than contract it out?

Mr. TURNBULL. Yes, there were, Mr. Chairman.

Mr. BEDELL. That was given no consideration?

Mr. WRIGHT. Again, in evaluating proposals, if you are buying a service or a product, there is a difference. If you are buying a product, the small business definition requires that substantial or substantive part of the work must be done by the small business. To the best of my knowledge, there is no such restriction in a service, but in this instance, I think Mr. Yamada testified, for us to require a company to own a computer, obviously that would limit an awful lot of small businesses from bidding.

So when we saw that someone is going to buy one or buy timesharing, I don't think that would have been a concern to us, other than whether the company they were going to actually had the 2060 computer and whatever was needed.

Mr. BEDELL. The purpose of you folks in the Small Business Administration is supposedly, I assumed, to be of assistance to small business.

If you get two bids from two different firms, and if one of them is a small business that is going to do the work themselves, and another is a small business that is going to contract out half of the business to a big business firm, and you don't give that any consideration at all in determining who should have the business, then I have to tell you, as a representative of the people and the small business community, that I am extremely disturbed over your attitude, because that is not the intent, in my opinion, of the set-asides for small business, that you should not care how much of it is subcontracted out to big businesses or not.

Now, you may well have a good reason to give it to the firm that is going to contract out some of it, but to tell us that you don't even pay any attention to that, and that is no consideration——

Mr. BILIRAKIS. To tell us that the reason you don't do it is because it would discourage or eliminate many small businesses from getting involved, well, they are not involved anyhow because you proceeded to give it to a small business which is teaming up, or subcontracting or whatever the case may be, with a bigger business.

I know many small business computer firms would have been very happy to have had an opportunity to bid on something like this. It just doesn't jive.

Mr. WRIGHT. Mr. Chairman, I would like to put just a little different light on this. I was not expressing a personal opinion to you, but expressing to you tne procurement regulations and the way the procurement system works. The regulations, obviously, can always be changed.

Mr. BEDELL. Well, are your regulations such that say you are not supposed to give any consideration as to whether or not the work that is done is done by a small business firm or a large business firm?

Mr. WRIGHT. The consideration is whether the company is or is not a small business by definition.

Mr. BEDELL. So what you are telling me is that your regulations say that you are not supposed to give consideration as to whether the work itself is to be primarily done by a small business or a large business?

Mr. WRIGHT. Whatever consideration goes there, sir, is in the regulations.

Mr. BILIRAKIS. Mr. Chairman, you aren't using any personal judgment being employees of the Small Business Administration, which should be concerned more with the small businessman. You are not using any personal judgment there. What you say is the procurement regulations do not require you to give any consideration to that, and therefore, you just choose not to do so.

Mr. WRIGHT. In order to award a contract, you have to determine that the contractor is both responsive and responsible, which are procurement terms, and in looking to responsibility as an example, it doesn't say that a company has to have a computer or it has to have the people to do the job.

Mr. BILIRAKIS. I know, but where is your judgment? Where does your judgment come in? It doesn't say. All right, so it doesn't say. But your concern should be more for the small businessman, and your judgment ought to be.

Mr. WRIGHT. Even in the statute, it says we are buying a product—or this statute and is implemented by regulation—if we are buying a product from other than manufacturer, it must be a product furnished by a small business. If we are buying a product manufactured by a small business, it says that he must have contributed substantively or significantly to that product.

So the regulations are where it is defined. I guess we are getting two things involved. If we wanted to talk policy, Bob, that is in your area, whether those regulations should be changed.

Mr. BEDELL. I just have to tell you that if I were running the place, you would both be fired. It is just that plain. Either you are there to go by the regulations and not be at all concerned about what flexibility you have and not give a damn about small business, or you are there to do what you can with small business within the regulations. All we are getting, in my opinion, is a bunch of gobbledygook back from you, to say that it was perfectly legal for me not to pay any attention to small business because the regulations said I didn't have to. That is what I am hearing.

That is fine. If that is your attitude, I have to tell you, as chairman of this committee, it is terribly disappointing to me. If that is what we have down at the Small Business Administration, if you are typical of what we have down there, and if the attitude down there is that all we care about are the regulations—we don't really care about small business—and if the regulations don't say we have to give it to small business, then we are not going to worry about it. That is what I hear, Mr. Bilirakis. I don't know what you hear. That is what I hear.

You know, that may be fine with you, but certainly as far as I am concerned, we sure as heck ought to talk to the Administrator in regard to this problem, because I am extremely disturbed about your attitude as I read it in this committee hearing. We are not here to cause trouble, but we are here to try to have things run the way they ought to run.

Maybe I shouldn't say that, but there is a limit to a person's patience here, it seems to me, as we serve on this committee.

Mr. TURNBULL. Could I add something, Mr. Chairman?

Mr. BEDELL. Anything that you can add would be of help.

Mr. TURNBULL. I hope this will be a help.

We at the Small Business Administration are totally committed to the idea that small business is a very important——

Mr. BEDELL. You can either show us or you can say that.

Mr. TURNBULL. Well, in fact, I believe that we bend over backwards for small business, and we are advocates, and we are out fighting in the Government procurement community on a day-in/day-out basis to support small business.

I think that we always bend over backward. If, in fact, a small business didn't have a computer and wanted to buy time, I wouldn't call it a subcontract. That may be a technical term, but I would call it purchasing of time as you purchase electricity or you purchase a telephone. This company has to purchase computer time.

Mr. BEDELL. No; you can purchase electricity only from a big firm. You can purchase computer time from a big firm or a small firm. That is our argument. I do not accept the comparison of electricity as compared to using computer time.

Mr. TURNBULL. Fine. I would just like to state again for the record——

Mr. BEDELL. If that is the way you are thinking, again it gives me trouble.

Mr. TURNBULL. We at SBA, of course, are wholeheartedly behind small business, and we will do whatever we can to make sure that it has a greater percentage of procurement opportunities in the Government.

Mr. BEDELL. Mr. Beer told us that he had submitted an unsolicited proposal that would lower your cost as compared to USRA. Was that considered, or does your contract with USRA say that you couldn't consider it? What is the situation?

Mr. TURNBULL. Mr. Beer did, in fact, submit an unsolicited proposal. I am not so sure how much I can say about that.

Mr. BEDELL. Did you analyze it?

Mr. COHEN. There are no proprietary restrictions.

Mr. TURNBULL. Fine.

There was an unsolicited proposal submitted to operate the PASS system at a cost of less than $900,000. I believe it was $855,000.

Mr. BILIRAKIS. What type of a contract was that, fixed price?

Mr. TURNBULL. I have an unsolicited proposal with me, but I can't seem to find it at the moment, Mr. Chairman.

Was it considered? Yes; it was considered. We were also slightly concerned that ICI had come in with an unsolicited proposal which was much under the bid of the former fiscal year to perform the same service. We were also greatly concerned about allowing somebody who was quite interested in receiving the PASS procurement on a competitive basis, giving them the leg up and allowing them to have that on a sole-source basis at this time.

Mr. BEDELL. We are talking about your agreement with USRA, and you were going to tell me a little bit about how that came to be.

Is it correct that you had indicated, or put something in the Federal Register indicating there would be bids, and then you withdrew that?

Mr. TURNBULL. That is correct.

Mr. BEDELL. How did this come to be?

Mr. TURNBULL. Well, actually, it started out probably in the spring of fiscal year 1983. We looked at the situation, the cost overruns, with the fact that ERA had been found to be other than small for this particular procurement, and we were very interested and desirable of putting out a new RFP on a small business set-aside basis.

We did, in fact, move ahead in that area and issued a notice in the Commerce Business Daily saying that proposals would be sought to run the PASS system on a small business set-aside basis.

As things progressed, I was convinced by the professional staff at SBA that we did not have time, in fact, to run the solicitation, get the proposals in, do a proper technical evaluation, and knowing in fact that we had defective and inefficient software, we felt that we just didn't have the basis at that point for letting a new competitive small business set-aside contract.

We, therefore, did entertain using the USRA, as it had run several of the PASS programs before, had some knowledge of the PASS programs, and their computer cost, in fact, would be less than perhaps commercial rates.

Mr. BEDELL. When did USRA start running your program?

Mr. TURNBULL. USRA got into the process in September, and then actually began running the program as of October.

Mr. BEDELL. When did you put out indication that you wanted bids?

Mr. TURNBULL. I don't know that I have a specific answer for that, Mr. Chairman, but I suggest it was May or June 1983.

Mr. BEDELL. May, June, July, or August; is that right?

Mr. TURNBULL. That is correct.

Mr. BEDELL. And you didn't think that was time to get the bids and evaluate them?

Mr. TURNBULL. I was informed that it was not time to do that, and the fact that we had the deficient software system created even bigger problems for us.

I will have to say it was a soul-searching period. We certainly didn't want to take the contract out of the small business arena or out of the commercial arena and give it to a Government entity. That is why we did stipulate in the interagency agreement itself that it would be a 1-year contract and no more than 1 year.

Mr. BEDELL. When did you decide that that should be done, that you should do that?

Mr. TURNBULL. Perhaps June or July. I can't give you a specific date on it.

Mr. BEDELL. When did you tell USRA that they had the contract?

Mr. TURNBULL. We signed an interagency agreement with the USRA—I have that agreement here—I believe it was probably in September of that year.

Mr. BEDELL. I guess I am confused with the timeframe. If you decided in July that they were qualified and you didn't notify them until September, I should think that, if you were going to go with them, the sooner they knew it, the better they could——

Mr. TURNBULL. We were looking at other alternatives. As was testified before, USRA's funding was, of course, in question.

Mr. BEDELL. What other alternatives were you looking at?

Mr. TURNBULL. August 1 was the date.

Mr. BEDELL. What other alternatives were you looking at?

Mr. TURNBULL. We were looking at the alternatives of perhaps going sole-source with another small business, as we didn't have time to do it on a competitive basis, of putting it out to a socially and economically disadvantaged firm, an 8(a) company, on a sole-source basis. Those are the sorts of alternatives we were looking at.

Mr. BEDELL. Is this quite customary, if you are going to give the contract to a minority enterprise, you do it without competitive bids?

Mr. TURNBULL. Yes. under the 8(a) program, Mr. Chairman.

Mr. BEDELL. You don't have competitive bids?

Mr. TURNBULL. That is correct.

Mr. BEDELL. Do you have anything more?

Mr. BILIRAKIS. I just wonder, Mr. Chairman, if the committee shouldn't know whether any investigations are taking place by an SBA Inspector General or any of the contract officials, or whatnot, of the entire picture of ERA and the entire situation?

Mr. BEDELL. How do we find that out?

Mr. BILIRAKIS. I would ask you if you know? Is the SBA Inspector General looking into the situation in any manner at all?

Mr. TURNBULL. Not to the best of my knowledge.

Mr. BILIRAKIS. Not to the best of your knowledge. How about DCAA?

Mr. TURNBULL. DCAA is presently performing the end-of-contract audit with ERA for its fiscal year 1983 PASS contract.

Mr. BILIRAKIS. Is that a routine investigation?

Mr. TURNBULL. Yes; it is a routine audit.

Mr. BILIRAKIS. A routine audit.

Mr. TURNBULL. Yes.

Mr. BILIRAKIS. So, as far as you know, there are no special investigations taking place as a result maybe of misuse of funds and inefficiency——

Mr. TURNBULL. No, sir.

Mr. BILIRAKIS. And interruption of the program?

Mr. TURNBULL. There have been many allegations that have been referred to the Inspector General. I was informed several days ago by the Inspector General they had looked at those allegations and determined not to proceed with an investigation.

Mr. BILIRAKIS. All right.

Mr. BEDELL. We have had testimony to indicate that, in effect, there is no real cost control here. It would be my interpretation that they do this work so long, and if they run out of money, they come back to you for more money or discontinue the work. Is that accurate, in your opinion?

Mr. TURNBULL. Under the basis of the last contract, you are correct, there was no ceiling on the cost. We will attempt to put a ceiling on the cost of the new competitive set-aside that goes out.

Mr. BEDELL. The problem we have, understand it, is that as they evaluated who should get the job, they did not give any consideration—apparently Mr. Wright indicated—to capabilities, or whether it is going to be done by small business, or any of those considerations. It was completely a cost determination that determined who got the job, those six that were——

Mr. TURNBULL. That is not quite correct, Mr. Chairman.

Mr. BEDELL. OK.

Mr. TURNBULL. There was a technical evaluation that was done prior to even looking at the cost. There are two separate evaluations.

Mr. BEDELL. But you came up with six.

Mr. TURNBULL. With six technically capable companies.

Mr. BEDELL. I thought if there were six technically capable that no study was made—that consideration was given to the different capabilities of those six companies. Is that right or wrong.

Mr. TURNBULL. Mr. Chairman, if I may, there were six companies that were evaluated to be technically capable.

Mr. BEDELL. Yes.

Mr. TURNBULL. The contracting officer, as I understand it, then looked at the price, went to the lowest bidder and asked them to perform a certification run of the system, which was accomplished apparently to the satisfaction of the contracting officer. That is how the contract was let to ERA.

Mr. BEDELL. Yes.

Mr. BILIRAKIS. Yet, that was an open contract. That bid of some $600,000 was just completely useless.

Mr. TURNBULL. It was a cost-reimbursement contract.

Mr. BEDELL. Yes.

Mr. TECKLER. Also, Mr. Chairman, if I may point out in response to your last question, there was a small business set-aside that was to be performed by a small business. You have taken exception to the way in which ERA structured its contract.

Mr. BEDELL. No; I am not criticizing ERA. I hope that is clear.

Mr. TECKLER. And also to the way SBA reviewed the contract and determined whether or not the work was to be performed by a small business. But the contract, as agreed to, did qualify under the regulations which have been made reference to this morning and under the proper procedures for a small business set-aside.

Mr. BILIRAKIS. We accept that.

Mr. BEDELL. You have seen the GAO report.

Mr. TURNBULL. Yes, sir.

Mr. BEDELL. You are quite clear about the concerns they have about your going ahead and changing the whole system again, are you?

Mr. TURNBULL. I received the report January 23, Mr. Chairman, and I have looked at the report. I have not had time to study it or have it analyzed.

Mr. BEDELL. Apparently there are some problems in your organization. He said he sent the report to you at least 10 days ago.

Mr. TURNBULL. In inquiring from the GAO, I was told there was a hold put on it.

Mr. BEDELL. In any event, I urge you to read it, because it certainly indicates some real concerns. If you go ahead with this new system and you get into the mess that some of the committee think you are going to, we are going to have you back before us again, and it may not be such a friendly committee as you had this time.

Mr. TURNBULL. Mr. Chairman, I welcome the views of the committee and your recommendations in this matter. I assure you that we will be analyzing the GAO report, and we will be doing everything to the best of our ability to keep the PASS system up and running at the least cost to the taxpayer, and helping the small business community to get as many of those Federal contracting dollars as are out there.

Mr. BEDELL. I think it should be clear that, from my standpoint, I happen to agree with the rest of the committee. If ERA told you everything, if there was no effort to hide anything then I don't think they are the ones we ought to be after. I think it is you people. I have some real problems with the way you handled this whole problem.

Mr. BILIRAKIS. You keep pointing to the procurement regulations, do you have regulations? Do you have guidelines, SBA guidelines, which guide you in terms of the way you let contracts and that sort of thing? If you don't have that, then you can sit here, Mr. Turnbull, with all due respect, and tell us that you are small business minded, but it is just meaningless. I am sure this sort of thing can be multiplied many times over, and that is what concerns us.

Mr. TURNBULL. We do have policies within the agency. As a matter of fact, our policies state that, as much of the contracting that SBA does, as a Federal agency, shall go to small business as is practical.

Mr. BEDELL. Then I, for one, don't think——

Mr. BILIRAKIS. You are letting this contract within the confines of this policy, right?

Mr. TURNBULL. This contract was let within the confines of that policy, believing that ERA, in its relationship with the other two companies mentioned, was a small business. It was determined to be other than small by the regional office and the Size Appeals Board later.

Mr. BEDELL. That is not our criticism. Our criticism is that if your rules are such that even though the work is supposed to go to small business, you let contracts go to bidders that are not small businesses. That is our concern. Just so we have it clear. At least

some of us think you are hiding behind regulations that may permit you do that, but we think it is a very bad policy.

Mr. TURNBULL. I hope that we haven't given the committee that feeling, because we certainly do not want to hide behind regulations.

Mr. BEDELL. Your hopes are wrong, because you have done that. You are better off to know it so you can correct it.

We should thank the GAO for the work they have done. I think it is great that they have looked into this to the extent they have.

We really appreciate your being here.

Mr. TURNBULL. If I may make one comment. I really appreciate the interest this committee has shown in the PASS system and in contracting and subcontracting for small businesses and the SBA.

Mr. BEDELL. Thank you very much.

Mr. TURNBULL. Thank you.

Mr. BEDELL. If there are no further questions, the subcommittee will be adjourned.

[Whereupon, at 1:50 p.m., the subcommittee adjourned, to reconvene subject to call of the Chair.]

APPENDIX

APPENDIX A.--SUBCOMMITTEE REQUEST FOR GAO STUDY

BERKLEY BEDELL, Iowa
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United States House of Representatives
Committee on Small Business
Subcommittee on General Oversight and the Economy
B-363 Rayburn House Office Building
Washington, D.C. 20515

January 16, 1984

Mr. Charles Bowsher
Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

The Small Business Administration estimated in its budget submissions that by the end of the current fiscal year there will be about $14 billion in outstanding loans under its direct and guaranteed lending programs. The ability of the SBA to effectively administer these programs is highly dependent on the automated information technology that supports their loan activities. Weaknesses in any of the systems that support loan administration could have a negative impact on small businesses nationwide and is of considerable concern to the Small Business Oversight Subcommittee, which I chair.

SBA plans to spend about $12 million for automated data processing support during FY84, about half of which is for software development. Because of the problems your office noted in SBA's development and maintenance of their other automated information systems, including the Procurement Automated Source System, the Oversight Subcommittee wishes to be informed about the effectiveness of all of SBA's computer-based systems needed to meet its mission and program objectives.

Accordingly, I am requesting that you initiate a study of SBA's overall computer-based information activities, including a detailed review of the automated software that supports SBA's loan programs and management information systems. The GAO's study should evaluate SBA's oversight and management performance as well as the performance and capabilities of SBA's computer service management contractors.

If you have any questions about this request, please call Mark Levine of the Oversight Subcommittee staff at 225-8944.

Sincerely,

Berkley Bedell

Berkley Bedell

APPENDIX B.--GAO STUDY, "AN IMPROVED AUTOMATED SYSTEM WOULD BETTER IDENTIFY SMALL BUSINESS SEEKING FEDERAL CONTRACTING OPPORTUNITIES

BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Chairman, Subcommittee On General Oversight And The Economy Committee On Small Business House Of Representatives

An Improved Automated System Would Better Identify Small Businesses Seeking Federal Contracting Opportunities

The Small Business Administration's (SBA's) Procurement Automated Source System is intended to maintain information about the size, skills, capabilities, and ownership of small businesses nationwide. Federal agencies and companies with prime contracts with the government use the system to identify small businesses desiring to contract with the government.

Fiscal year 1983 data, when available, are likely to show that system operating costs were more than double SBA's original estimates. In addition, incomplete and outdated information on small businesses and delays in entering new firm names into the system prevent procurement representatives from identifying thousands of interested small firms.

SBA needs to improve its management and technical control in operating the current system. Otherwise, the system may lose its credibility with procurement officials. This may reduce the opportunities for small businesses to compete for federal contracts. Also, SBA should perform a comprehensive analysis of alternative approaches for meeting user requirements before proceeding with its plan to redesign the system.

GAO/IMTEC-84-3
JANUARY 12, 1984

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

INFORMATION MANAGEMENT
& TECHNOLOGY DIVISION

January 12, 1984

B-206599

The Honorable Berkley Bedell
Chairman, Subcommittee on General Oversight
and the Economy
Committee on Small Business
House of Representatives

Dear Mr. Chairman:

In your March 9, 1983, letter, you asked us to review the Procurement Automated Source System, which is maintained by the Small Business Administration. (See app. I.) This report evaluates how well the system is functioning; how much federal agencies and contractors use it to foster small business procurement opportunities; and how accurate, relevant, and current is the system's information. It also includes our views on management of the system and plans for its future operation.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. We will then send copies to the Director, Office of Management and Budget; the Chairmen, House and Senate Committees on Appropriations, House Committee on Government Operations, and Senate Committee on Governmental Affairs; the Administrator of the Small Business Administration; and other interested parties.

Sincerely yours,

Warren G. Reed
Director

GENERAL ACCOUNTING OFFICE
REPORT TO THE SUBCOMMITTEE ON
GENERAL OVERSIGHT AND THE ECONOMY
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

AN IMPROVED AUTOMATED SYSTEM WOULD BETTER IDENTIFY SMALL BUSINESSES SEEKING FEDERAL CONTRACTING OPPORTUNITIES

D I G E S T

The Small Business Administration (SBA) depends on its Procurement Automated Source System (PASS) to provide federal procurement representatives and government prime contractors with information about the products, capabilities, services, and ownership of small businesses seeking federal contracting opportunities. As of January 1, 1984, this computerized system had 121 users and contained information on more than 98,000 firms. PASS was developed by a contractor for SBA and was operated by that contractor from October 1978 to September 1982. A second contractor (Executive Resource Associates, Inc.)--the winning bidder on an SBA competitive contract--operated the system during fiscal year 1983. The U.S. Railway Association, a federal agency, is operating PASS during fiscal year 1984 under an interagency agreement with SBA. (See p. 1.)

At the request of the Chairman, Subcommittee on General Oversight and the Economy, House Committee on Small Business (see app. I), GAO sought to determine (1) whether federal agencies are using PASS to promote small business contracting opportunities, (2) whether the information in the system is current, accurate, and relevant, (3) how well the system is functioning, and (4) what plans SBA has for the future of the system. GAO's review covered the operation of PASS during fiscal year 1983.

The PASS users GAO contacted were generally satisfied with the system. However, unbeknown to many of them, serious problems occurred during fiscal year 1983 that affected the reliability of PASS information. GAO's review showed that (1) PASS is being used by a variety of agencies and prime contractors, (2) PASS information is incomplete and outdated, (3) the system has operational problems, and (4) SBA's plans to resolve the problems raise concerns about the system's future. Because PASS information is incomplete and outdated, procurement representatives cannot identify all qualified small businesses interested in obtaining federal contracts.

Tear Sheet

GAO/IMTEC-84-3
JANUARY 12, 1984

PASS INFORMATION
IS INCOMPLETE AND OUTDATED

PASS information is incomplete. Between October 1, 1982, and June 30, 1983, about 22,000 small businesses submitted information to SBA expressing their desire to be registered in the system and to be considered for federal contracting opportunities. Because of software problems with the computer programs that process this information, only about 7,600 of the new registrations were processed. Although some progress was made in decreasing the backlog during July and August 1983, new software problems have since developed with these programs. (See pp. 5 to 7.)

Because SBA directed the contractor to concentrate its efforts on resolving the backlog problem, other major system functions designed to keep PASS information up to date and to encourage small businesses to register in the system have not been carried out. For example, the annual update function was designed to send a profile to each registered firm annually and to request information about any changes in the firm's location, size, products, capabilities, or services. GAO estimates that, because this was not done, information on about 64,000 firms--71 percent of the 89,000 firms in the PASS data base on November 1, 1983--needs updating. Another function not performed is the outreach program. The purpose of this program is to contact firms not in the system and encourage them to submit registration forms. SBA said that it knew of about 72,000 firms potentially interested in registering in PASS, but it did not contact them. (See pp. 6 to 8.)

FACTORS CONTRIBUTING TO THE
PROBLEMS WITH PASS INFORMATION

GAO believes that gaps in SBA's oversight of the fiscal year 1983 contractor's activities and costs, weaknesses in system documentation, and questionable system efficiency contributed to the problems with PASS information. In addition, GAO believes that SBA needs to strengthen its efforts to actively involve all federal and private users in system improvements.

GAO noted that SBA program management was not closely monitoring the contractor's performance, including overseeing the system's technical operations. For example, GAO found that SBA was not aware that a major subcontractor dedicated a

significant percentage of its personnel resources to designing a new system--work that was outside the scope of the contract. Although the contractor subsequently decided not to charge SBA for this work, knowledgeable subcontractor personnel were developing a new system at a time when they should have been directing their activities to carrying out the annual update and outreach functions of the system. (See pp. 13 and 14.)

GAO also noted problems with SBA's management of costs. For example, the contractor estimated that costs for operating PASS during fiscal year 1983 would reach $1.4 million, or 114 percent more than anticipated. Yet GAO found that SBA did not analyze the increases or require the contractor to provide an explanation or task analysis supporting why costs would be significantly higher. (See pp. 15 and 16.)

GAO found that SBA did not provide the fiscal year 1983 contractor with complete and accurate system documentation to facilitate smooth technical operation of the system and resolution of system problems. Lack of this documentation--which normally describes the internal technical operation of the software--hampered the contractor's attempts to resolve the software problems that occurred during fiscal year 1983.

In addition, organizations that have occasionally provided technical advice and guidance to SBA questioned the efficiency of the system's software, including the amount of computer resources required to process information. The inefficient software resulted in lengthy processing times and high operating costs. One of these organizations, the U.S. Railway Association, is testing a modification to the system that could significantly improve the processing efficiency of PASS. (See pp. 8 and 9.)

Also, SBA needs to strengthen its user involvement program to ensure that PASS continues to meet changing user needs. SBA has occasionally attempted to obtain user comments at its annual conferences for SBA procurement representatives, and requested written comments in a March 1983 letter. These efforts have been largely unsuccessful. GAO found that SBA did not use such techniques as periodic meetings for all users, structured questionnaires, or visits to the users' locations to obtain feedback. (See pp. 9 to 11.)

Tear Sheet

SBA EFFORTS TO RESOLVE COST AND OPERATIONAL PROBLEMS

Although SBA has recognized the cost and operational problems with the system, it has not succeeded in resolving them. SBA believes that recently developed plans will address these problems. For instance, SBA may spend an estimated $500,000 less than fiscal year 1983 costs under an agreement with the U.S. Railway Association, which will operate the current system during fiscal year 1984. To resolve the system problems, SBA plans to select a contractor to redesign, develop, and implement a new system by September 30, 1984. SBA plans to operate the new system on minicomputer hardware. (See pp. 16 to 18.)

GAO recognizes that the high cost and software problems that occurred during fiscal year 1983 lend support to SBA's decision to redesign PASS. However, GAO is concerned that SBA's decision to redesign PASS, particularly the selection of a minicomputer to meet the system's future hardware requirements, may be premature. Also, SBA's time frame for the redesign may be too optimistic, considering the extensive effort historically experienced by agencies in designing, developing, documenting, testing, and implementing automated systems.

GAO noted that although an October 1983 PASS study group report recommended retention and modification of the current system, SBA management decided that a total redesign of the system was necessary. SBA did not base its decision on an analysis of (1) current functional requirements, (2) alternative approaches to meeting hardware, software, and telecommunications requirements, and (3) the costs, benefits, and risks associated with each alternative. GAO believes that this type of analysis is important and should be done before SBA makes any commitments on hardware or software for the new system. The analysis should include an evaluation of the current system to determine if its effectiveness and efficiency could be improved through system modifications. If the modifications meet user needs and are approved by SBA management, the need for a system redesign may be eliminated.

RECOMMENDATIONS

GAO recommends that the Administrator of SBA:

--Increase the efficiency and usefulness of the existing system by (1) modifying PASS software to

correct processing deficiencies, (2) updating system documentation to facilitate timely resolution of operational problems, and (3) increasing efforts to encourage user participation in suggesting and reviewing system improvements.

--Improve and maintain the currentness and accuracy of PASS information--after resolving the software deficiencies--by (1) promptly processing the large backlog of information awaiting entry and (2) regularly operating all system functions such as the annual update and outreach programs.

--Direct the program and contracting offices to closely monitor the technical and management operations of PASS at the U.S. Railway Association.

--Defer making any hardware or software decisions on a new system until SBA (1) analyzes the current functional requirements and evaluates the current system's ability to meet these requirements, (2) identifies alternative system approaches to meeting these requirements, and (3) performs a cost-benefit analysis of each approach to use as a basis for any future redesign efforts.

AGENCY COMMENTS

SBA generally agreed with GAO's findings and the related recommendations to improve the operational deficiencies. SBA plans to make modifications to the existing system that should, once implemented, improve processing efficiency. As a result, the backlog can be reduced and SBA can resume operation of important system functions not operated during fiscal year 1983.

SBA disagreed with GAO's position that management was not closely monitoring the contractor's performance and costs. SBA believed that it had fulfilled its oversight responsibilities through regular management meetings with the contractor. GAO believes that closer monitoring was necessary, considering the weaknesses noted. As a minimum, SBA should have periodically reviewed the work being performed by contractor and subcontractor employees.

SBA also disagreed with GAO's position that the new system development should be delayed. SBA planned to award a contract for the redesign, development, and implementation of PASS in January 1984. The

agency agreed that the information developed from a functional requirements study and analysis of system alternatives and cost benefits would be helpful. However, SBA believed that the high cost and serious operational problems that occurred during fiscal year 1983 warranted prompt initiation of the new system development.

GAO believes that the development and implementation of an automated information system is often a costly and risky endeavor, even when the appropriate foundation for the system has been well defined, documented, and validated by the system's users. Without this foundation, the system development may be very time consuming and expensive and may not satisfy user needs. This could further inhibit federal efforts to identify contracting opportunities for small businesses.

GAO also discussed its findings with the contractor throughout the review and these discussions are reflected in the report.

34-233 O—84——8

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ABBREVIATIONS

GAO	General Accounting Office
PASS	Procurement Automated Source System
SBA	Small Business Administration

CHAPTER 1

INTRODUCTION

The Small Business Act (15 U.S.C. 631, et. seq. (1982)), as amended, requires the government to place a fair proportion of the total federal purchases of property and services with small business enterprises. A 1977 amendment to the act (Public Law 95-89, 91 Stat. 553, 554) directed the Small Business Administration (SBA) to give priority to developing a small business procurement source data bank. In response to these laws, the Procurement Automated Source System (PASS)--a repository of information about the size, capabilities, and ownership of small businesses--was conceived through the joint efforts of SBA and the Department of Energy.

In September 1977, a 5-year competitive small business set-aside contract was awarded for technical development and operation of the system for SBA. PASS became operational in October 1978 and was operated by the same contractor until October 1982, at which time another contractor--the winning bidder on the SBA competitive reprocurement contract--assumed operations for fiscal year 1983. The U.S. Railway Association is operating PASS during fiscal year 1984.

PASS was originally intended to be used primarily by SBA small business source specialists, procurement center representatives, subcontracting specialists, and Department of Energy procurement representatives. However, the subcontracting requirements of Public Law 95-507 (92 Stat. 1757, Oct. 24, 1978) gave PASS additional importance as a tool for the government's large prime contractors to use in identifying small and disadvantaged firms for subcontracting opportunities. As of January 1, 1984, there were 121 authorized users of PASS nationwide--79 in government agencies, 39 in the private sector, and 3 at state universities. Over 98,000 small businesses were registered in the system to indicate their interest in providing goods and services to the government either directly or through prime contractors.

NEED FOR SINGLE SOURCE OF INFORMATION

Many small businesses do not have the financial resources to conduct expensive advertising and sales campaigns that would inform federal procurement representatives and prime contractors of the small businesses' experience, capabilities, and willingness to work for the government. Under ideal circumstances, a small business could submit information to one source or agency, which would then make it available governmentwide. PASS was intended to meet this objective.

According to SBA, PASS is advocated as the single source system for small business information. The Tri-Association Small Business Advisory Panel of prime contractors is an advocate of PASS for small firms seeking subcontracting opportunities.

Also, the Council of Defense and Space Industry Associations, comprising the Aerospace Industries Association, Electronic Industries Association, and National Security Industrial Association, informed the SBA Administrator in May 1983 that the council had established a project to support PASS as the single national source data base for small businesses and pledged its continued support.

OBJECTIVES, SCOPE, AND METHODOLOGY

On March 9, 1983, the Chairman of the Subcommittee on General Oversight and the Economy, House Committee on Small Business, asked us to provide information about PASS. (See app. I.) The objective of our review was to answer the Chairman's specific concerns, including

--how much other federal agencies use PASS to foster small business contracting opportunities (see p. 4);

--whether it contains accurate, relevant, and timely information about the small businesses on file (see p. 5);

--how well it is functioning (see p. 8); and

--what plans SBA has, as well as what we recommend, to make PASS as effective as possible (see p. 16).

The Chairman also requested information on SBA's implementation of certain information-gathering requirements of the Small Business Innovation Development Act of 1982 (Public Law 97-219, 96 Stat. 217, July 22, 1982). That act required SBA to develop and maintain a source file and an information program to ensure that qualified and interested small businesses have an opportunity to participate in federal agency small business innovation research programs. It was initially understood that SBA was using PASS to comply with the act's information requirement. However, after we determined that SBA did not use PASS solely to meet this requirement, the Chairman agreed to our deleting this area from our current review.

Our work focused on three major aspects of PASS: (1) SBA's management and operation of the system, (2) user satisfaction with the system, and (3) the accuracy, relevance, reliability, and currentness of the system's information. To determine how well SBA was managing the system and its operating contractor, we obtained comments from (1) representatives in SBA's Office of Procurement and Technical Assistance, who are responsible for the system's day-to-day management, (2) the contracting officer in SBA's Office of External Awards, and (3) SBA senior management. We did not review the initial contractor's operation of PASS or that of the U.S. Railway Association, which will operate PASS during fiscal year 1984. We met with SBA's prime contractor, Executive Resource Associates, Inc., which operated PASS during fiscal year 1983, and with subcontractor representatives, to

discuss the technical operations and administration of the system. We reviewed contractor invoices, management reports, and related correspondence which generally covered the period September 22, 1982, through August 31, 1983. Where possible, we updated information about the status of PASS through January 1, 1984. As requested by the requestor's office, we did not transmit a copy of the draft report to the agency for comment. However, we did discuss its findings, conclusions, and recommendations with SBA and included SBA's official oral comments in the report. We also discussed our findings with the contractor throughout the review. These discussions are reflected in the report.

We measured the overall satisfaction of PASS users by conducting a nationwide telephone survey of users in 20 states and the District of Columbia. Initially, we randomly selected 42 users to contact but because of time considerations we judgmentally narrowed that sample to 28 users. In selecting our sample, we considered the frequency of use, the type of organization, and the geographic location of users. The 28 users selected--19 federal and 9 private--made 3,384, or about 60 percent, of the 5,643 inquiries handled by PASS during the first 7 months of fiscal year 1983. The frequency of use by the 28 users ranged from very high (daily access) to low (infrequent access). Using a structured questionnaire, we discussed how well the system operated, how accurate and current the information was, for what purposes the information was used, and what changes could make the system operate more efficiently or improve its usefulness. Although we did not make statistical projections from our results, the problems and concerns they raised formed part of the basis for our findings, conclusions, and recommendations. Details on the methodology used and results obtained are in appendix II.

We reviewed the currentness and accuracy of PASS information by randomly selecting 400 of the 74,354 small businesses listed in the system as of May 9, 1983. We then compared the information that each of these businesses had submitted to SBA against the information maintained in the PASS data base. We considered the PASS data base correct for the 27 firms for which we could not locate original registration information. Because we used accepted statistical techniques for defining and identifying our sample, we projected the results of our analysis to the entire PASS data base with 95-percent reliability, plus or minus a 5-percent error factor. Our review was performed in accordance with generally accepted government auditing standards.

CHAPTER 2

PASS IS USEFUL, BUT OPERATIONAL PROBLEMS HINDER ITS EFFECTIVENESS

The effectiveness of PASS depends on SBA's ability to collect, maintain, and provide information about small businesses in a timely and accurate manner. Information in PASS must be readily accessible so that procurement representatives and government contractors can easily identify small businesses for potential contracting opportunities.

The PASS users we contacted were generally satisfied with the system. However, unbeknown to many of them, serious problems occurred during fiscal year 1983 that affected the reliability--completeness and currentness--of PASS information. Specifically, PASS information was incomplete because a large backlog of information was awaiting entry into the system, and not current because information already in the system was not being updated. Also, several important system functions were not being performed, system documentation was insufficient, and system efficiency was questionable. In addition, we found that SBA needs to strengthen its user relation activities to more actively involve system users and encourage their participation in system development.

PASS IS BEING USED TO FOSTER SMALL BUSINESS CONTRACTING OPPORTUNITIES

Most of the users we contacted stated that PASS was an important source of information on small businesses. Of the 28 users contacted (19 federal and 9 private), 14 used PASS as the primary source, 13 used it as a supplemental source, and 1 no longer relied on PASS information. Most users told us that PASS was important to their operations and that it would be difficult to operate without the system. During the first 7 months of fiscal year 1983, PASS users accessed the system 5,643 times. They requested 39,914 searches of the data base and displayed 161,183 profiles listing information about small businesses.

The users we contacted appeared generally satisfied with the system, although they occasionally experienced technical problems. Five users knew that information was not being added to the PASS data base as promptly as it should be, but 27 users said PASS was useful in identifying small businesses for contracting opportunities and in helping small firms obtain greater opportunity to be considered for federal contracts. Users also stated that PASS was helpful in identifying particular types of firms, including minority-owned, socially or economically disadvantaged (8(a)[1]), and women-owned firms. PASS contributed to meeting

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[1]As defined under section 8(a) of the Small Business Act (15 U.S.C. 637(a)(1982)), as amended.

goals for awarding contracts to such firms. Some used PASS in conjunction with other information. For example, 13 users said they used PASS as a supplemental source of information about small firms.

SBA cannot directly link the use of PASS information with actual contracts awarded to small businesses. This is because procurement representatives generally used PASS as the initial source of information for notifying small businesses about a potential contracting opportunity. PASS was not designed to maintain followup information about the firms that received government contracts.

PASS INFORMATION IS INCOMPLETE AND OUTDATED

In reviewing PASS, we found that (1) thousands of profiles listing information about small businesses have not been entered into the system's data base, (2) information on existing firms has not been updated, and (3) important functions, such as designating firms that are socially or economically disadvantaged and encouraging new firms to register in the system, have not been carried out. Because PASS does not contain complete and current information, procurement representatives may not be aware of the location, size, and capabilities of thousands of firms, and small businesses are probably losing opportunities to compete for federal contracts.

New firms have not been added to PASS promptly

Each month, thousands of small businesses send SBA a registration profile for PASS. A profile includes the firm's name, location, size, type of business, capabilities, and ownership information. The contract requires the contractor maintaining PASS to put the information into the system within 30 days of receipt. On the basis of SBA's original estimate of processing 2,000 profiles a month, the contractor should have processed about 18,000 profiles for new firms during the first 9 months of fiscal year 1983. However, during that period only about 7,600 firms were added to PASS although the contractor received information on about 22,000 new firms.

The contractor stated that the backlog of about 14,400 profiles existed because SBA did not deliver the approved operating software for profile processing until March 1983, 6 months after the contract was awarded. Therefore, the contractor could not begin processing the accumulated profiles until that time. SBA representatives said that unforeseen technical problems with the computer programs that process changes and additions to PASS information, delayed its software delivery to the contractor. However, SBA representatives also told us that during May through July 1983 the contractor submitted three schedules for eliminating the backlog and each succeeding schedule showed a later completion date. Concerned with the contractor's performance, on July 20, 1983, SBA notified the contractor that it was not making significant progress in reducing the large backlog.

During July and August 1983, the contractor began accelerated processing. During this same period it received an additional 4,800 profiles for new firms and processed about 8,600 of the profiles on hand. Despite these efforts, as of August 31, 1983, about 10,600 profiles for new firms had not been entered into the PASS data base. Therefore, procurement representatives who used PASS before that time did not receive information about thousands of small businesses that had submitted information to SBA but were not included in the PASS data base.

The PASS contractor expected to eliminate the backlog by November 1983. This was not accomplished for the following reasons:

--The contractor experienced new software problems during September which slowed processing to below the planned accelerated rate.

--While SBA was changing system operators and converting the system to run on the U.S. Railway Association's computer facility, some delays in processing occurred.

--During the period of conversion and testing, SBA continued receiving thousands of profiles that added to the existing backlog.

On November 1, 1983, the backlog contained about 12,000 profiles --nearly as many as in July 1983 when accelerated processing began.

Information about firms registered has not been updated

Every 12 months after a firm is registered in PASS, a company profile should be printed and mailed to the small business for its review and update. Changes made by the firm should be returned to the PASS contractor for data entry and processing. SBA estimated that approximately 80 percent of the firms that respond to update requests make changes to the information previously supplied. The changes can affect the firm name, location, size, capabilities, or ownership.

The updating process has not been done since September 1982, and it is long overdue. Because of the large number of new profiles awaiting data entry and processing, SBA representatives instructed the contractor not to process any yearly update notices until it eliminated the backlog.

The effectiveness of PASS depends on SBA's ability to maintain accurate and current information about small businesses. To determine whether the information in PASS was accurate, we compared the information each firm in our sample had submitted with the information maintained in the PASS data base. The individual data elements we verified included the firm's name, address, number of employees, phone number, type of business, capabilities,

and ownership. We considered the PASS information inaccurate if it did not match the information submitted by the small firm. Using the results of our analysis, we projected that the information for about 65,600, or about 88 percent, of the 74,300 firms in PASS on May 9, 1983, was originally entered accurately.

Regarding the currentness of PASS information, we considered it outdated if it needed updating by November 1, 1983. We found that information for about 64,000 firms--71 percent of the 89,000 firms in PASS on November 1, 1983--needed updating.

Important system functions have not been performed

Three other major functions of PASS have not been carried out during fiscal year 1983 because SBA directed the contractor to eliminate the backlog of profiles before performing these functions. Two functions--the vocabulary update program and the 8(a) matching program--affected the use of the system. The third function--the outreach program--was SBA's primary method of encouraging new firms to register in the system. SBA does not plan to operate any of these functions until the backlog problem has been resolved.

Vocabulary update

A primary method for identifying firms in the PASS data base is to use key words which were included in the capability section of the PASS registration form. About 7,400 key words can be used to identify companies in the data base. A firm cannot be identified by key words that are not included in the key word index.

The vocabulary update function of PASS modifies the system's key word index to keep it current. When new words are added to the index, the information for each firm is processed against this new list so that firms using these words in their capability statements can be selected on the basis of the new key words. Although the key word index is required to be updated semiannually, it was not updated during fiscal year 1983.

The effect of not performing the key word update function is that some firms are registered in the system but are effectively lost. That is, because one or more of the key words used in the capability statements are not in the usable key word index, procurement representatives cannot identify these firms on the basis of their new capabilities, products, or services.

8(a) firm update

The government's 8(a) program assists socially and economically disadvantaged firms by making noncompetitive procurement opportunities available to them. Four times each year, the names of all the approved firms in the SBA 8(a) program should be compared with firms registered in the PASS data base. When a match

occurs, the firm's PASS information is modified to indicate that it is an approved 8(a) firm. However, because the 8(a) matching function was not performed, some SBA-approved 8(a) firms are registered in PASS but are not identified and thus may be missing opportunities for noncompetitive federal contracts.

We could not determine from available information the number of 8(a) certified firms that were added to PASS in fiscal year 1983 but are not currently designated as such in the PASS data base. We do know that at the end of fiscal year 1982, about 1,100 firms registered in PASS were 8(a) certified.

Outreach program

The purpose of the PASS outreach program is to contact small businesses that are not registered in the system and invite them to submit PASS registration forms. SBA estimated that it received 15,000 names of potential PASS registrants each month, primarily from large federal prime contractors. At this rate, SBA expected to receive about 180,000 names during fiscal year 1983. SBA estimated that, after eliminating the names of firms already in PASS and those contacted during previous outreach efforts, it would have contacted 72,000 new firms during fiscal year 1983 and requested the firms to submit PASS registration information. Because this function was not carried out, thousands of small businesses were not contacted and were not requested to register in PASS.

PROBLEMS EXIST WITH SYSTEM DOCUMENTATION AND EFFICIENCY

The design, development, and implementation of a computer-based system usually represents a considerable investment of human and computer resources. To maximize the return on this investment and to provide for cost-effective operation, revision, and maintenance of the system, informative documentation is needed and should be developed during each stage of the system development life cycle. For systems like PASS--with periodic changes in operating contractors--accurate and complete user and system documentation is critical for continuous, effective, and efficient operation.

Although the user manual for PASS has been kept current, other important system documentation, including the functional requirements statement, test plan, computer program maintenance manual, software summary, and operations and procedures manual, is either outdated or nonexistent.

The initial PASS contractor was required to maintain the system and user documentation. However, the fiscal year 1983 contractor told us that a major part of the system documentation SBA provided was useless for resolving problems with the operational software (computer programs that allow the system to perform its required functions). The seriousness of having inadequate, incomplete, and inaccurate system documentation has been

brought to SBA's attention by organizations that have attempted to use the documentation to understand and operate PASS.

In April 1982, 5 months before SBA awarded the fiscal year 1983 contract, a company hired by SBA to test PASS reported that certain system documentation was confusing, inaccurate, or missing. The company suggested that SBA give priority to resolving the documentation problems. On November 15, 1982, the contractor that operated PASS during fiscal year 1983 reported numerous problems with the PASS software and associated documentation. For example, it stated that SBA had not provided the system overview documentation or program and data base specifications. The absence of this information reportedly caused considerable delays to the contractor, which was attempting to test and implement all PASS functions. SBA plans to correct the documentation problems during fiscal year 1984.

The efficiency of certain system functions has also been questioned by the company that tested PASS in 1982, by the contractor that operated PASS during fiscal year 1983, and by another government agency (U.S. Railway Association) that SBA asked to validate and test the PASS software during 1983. All three organizations asserted that the system was inefficient; it required an unusually high amount of computer resources and lengthy processing time, resulting in high operating costs.

On August 22, 1983, the fiscal year 1983 contractor proposed that SBA convert PASS to a new software system the contractor had developed at its own expense. The contractor claimed that conversion to the new system would reduce expenses for computer operations by 30 percent and provide a much better system to PASS users. SBA did not respond to the contractor's proposal because it had decided (as explained on pp. 16 and 17) not to renew the contract for fiscal year 1984.

On October 31, 1983, a representative of the U.S. Railway Association told us that it was testing a modification to PASS that would reduce the amount of computer resources used during the update process by about 40 percent. If implemented, this modification could significantly improve processing efficiency and facilitate elimination of the large backlog of profiles.

SBA'S PROGRAM TO OBTAIN USER INVOLVEMENT HAS BEEN LARGELY UNSUCCESSFUL

Information system users should be actively involved in the design, development, implementation, and operation phases of a system's life cycle. After a system becomes operational, the agency should have a continuing training program to maintain user skills and knowledge of the system. The agency should also have a mechanism by which users can suggest improvements in the system's efficiency or usefulness. However, we found that SBA did not use such techniques as periodic meetings for all users, telephone interviews, structured questionnaires, and visits to the users' locations. Although SBA has occasionally attempted to obtain user comments, these efforts have not been successful.

SBA's efforts to obtain user comments

SBA representatives have obtained comments about PASS from SBA users at the annual conferences for small business procurement representatives. This year's conference, which we attended, included a discussion of the status of PASS, system development activities, and common problems experienced by several users. However, the meeting did not include non-SBA users (other government agencies or prime contractors).

SBA has attempted, although not too successfully, to obtain comments from non-SBA users. In a March 1983 letter, SBA requested written suggestions from all PASS users about how to improve the system. SBA representatives told us that several oral responses were received which indicated that everything was fine with PASS and offered no suggestions for improvement. Two written responses were received, one of which suggested solutions for correcting several technical problem areas in the system. The adoption of these changes would reportedly permit the user to make more timely and accurate searches of the data base to identify firms with certain desired capabilities.

SBA forwarded these suggestions to the contractor on April 6, 1983, and requested an evaluation of the impact and estimated cost of each change. After meeting with the contractor, SBA decided to postpone any changes to the software until problems related to the backlog of profiles were resolved.

Suggestions obtained
from GAO's user survey

Our user survey--conducted by telephone using a structured questionaire--found that many users wanted changes in the system. During our survey of 28 PASS users, 26 made suggestions on improving the operation of PASS or the information in the system. (See app. II.) Some users made the same suggestions that SBA obtained from the two users that responded to its survey. Many of the suggestions related to the search function, which permits users to search the data base and identify firms having selected capabilities, products, or services. Seventeen users suggested that SBA expand the usable key word listing to include more specific words for such areas as high technology, electronic components, and medical research. This suggestion implied that firms registered in PASS might not be easily identified because SBA had not added certain words to the usable key word listing. Although information on about 17,000 firms has been added to PASS since September 30, 1982, SBA told the contractor--because of the backlog problem--not to update the usable key word listing.

Other suggestions to improve the search function of PASS included:

--Provide more examples in the users guide on how to combine information fields used during the search process to help eliminate firms that do not meet the desired requirements.

--Examine the feasibility of using Standard Industrial Codes or Federal Supply Classification Codes to more precisely identify certain types of firms.

--Allow some latitude in spelling when searching for a firm by name.

SBA representatives told us that they were generally aware of the need for some of the changes suggested by users. However, the suggested changes were not made because SBA (1) believed the estimated implementation cost would be too high and (2) wanted to first resolve the current operating problems. The representatives also told us that SBA did not currently have an established mechanism or program to periodically consult PASS users about needs and suggested changes to the system, but planned to strengthen its user activities during fiscal year 1984.

CONCLUSIONS

Although the system is widely used, PASS information remains incomplete and outdated. Poor system documentation and questionable processing efficiency have contributed to the operational problems which caused the large backlog of unprocessed profiles, and to SBA's decision to postpone operating other important system functions such as the outreach, 8A, and vocabulary update processes. These deficiencies had a serious effect on the completeness and accuracy of PASS information. In addition, unless SBA strengthens its efforts to more actively involve all PASS users in future decisions affecting PASS, the information needs of users may not be met.

Until PASS problems are corrected, thousands of small businesses will continue to be excluded from the system and will lose opportunities to be considered for federal contracts. Furthermore, if PASS information is not updated soon, the system may lose its credibility among procurement representatives and contractors who depend on it to identify qualified small businesses.

RECOMMENDATIONS

To correct the problems in the Procurement Automated Source System, we recommend that the Administrator of SBA:

--Increase the efficiency and usefulness of the existing system by (1) modifying PASS software to correct processing deficiencies, (2) updating system documentation to facilitate timely resolution of operational problems, and

(3) increasing efforts to encourage user participation in suggesting and reviewing system improvements.

--Improve and maintain the currentness and accuracy of PASS information--after resolving the software deficiencies--by (1) promptly processing the large backlog of information awaiting entry and (2) regularly operating the annual update, outreach, 8(a), and vocabulary update functions of the system.

AGENCY COMMENTS

SBA generally agreed with our findings and related recommendations to improve the operational deficiencies that caused PASS information to become incomplete and outdated.

CHAPTER 3

SBA'S MANAGEMENT OF PASS NEEDS IMPROVEMENT

SBA applied only limited management controls over the contractor that operated PASS during fiscal year 1983. The controls used included occasional correspondence, a regular monthly status report and invoice, and periodic meetings between SBA and the contractor to discuss progress, problems, and system modifications. However, the contractor's monthly reports did not provide SBA with meaningful and complete information to allow effective evaluation of contractor performance or costs. Moreover, costs for operating PASS were much higher than anticipated.

We believe the future of PASS is uncertain. SBA has entered into an agreement with the U.S. Railway Association to operate PASS during fiscal year 1984. However, SBA decided to totally redesign PASS--using a private contractor--within one year. We are concerned that SBA's decision to redesign PASS was premature.

SBA MANAGEMENT DID NOT CLOSELY MONITOR CONTRACTOR ACTIVITIES

In September 1982, when SBA transferred operation of PASS, the new contractor was unsuccessful in obtaining advice and guidance from the previous contractor. Because of this, SBA should have provided the technical and operational guidance needed and closely monitored the contractor's performance, including the technical operation of the system.

We found that SBA program representatives and contracting officials were not sufficiently overseeing the contractor's activities. Although SBA initially required the contractor to provide information on its proposed management plan for operating PASS, SBA did not closely monitor subsequent activities to determine how the contractor was using its labor resources. For example, the invoices for March and April 1983 indicated that 18 contractor and subcontractor employees operated and maintained PASS. Yet neither the invoices nor the contractor's monthly management report to SBA provided details on the employees' specific responsibilities, tasks, or accomplishments. Furthermore, SBA representatives could not describe the work that most of the contractor's employees were doing.

Our review of the weekly time sheets for subcontractor employees for March and April 1983 indicated that a number of employees were designing a new PASS system--work that was outside the scope of the contract. The contractor told us it decided to redesign PASS because of the high costs and software problems experienced in operating PASS during the first several months of fiscal year 1983. The contractor also said that--based on SBA program officials' favorable reactions to the concept of a new

system design--it believed the redesign would be reimbursable work. However, the contractor told us that it decided not to bill SBA for the redesign effort after SBA decided not to renew the contract option for fiscal year 1984.

Although the contractor subsequently decided not to bill SBA for about 65 percent of the subcontractor's direct labor that was attributable to this work, valuable hours were spent designing a new system even though the current system continued to have operational problems and important system functions like the annual update process and the outreach program had not been operated. We also determined that the new system's development--although outside the scope of the contract--was based on inaccurate, incomplete, and outdated user requirements and system documentation.

Agency officials did not agree with our position that SBA management was not sufficiently involved with the contractor's activities. Specifically, they stated that the agency had fulfilled its oversight responsibilities through regular management meetings with the contractor. They further stated that SBA did not have responsibility for closely monitoring the day-to-day operations or the activities of individual contractor and subcontractor employees.

We disagree. Close monitoring of contractor performance was essential, considering the problems noted. As a minimum, SBA should have periodically reviewed the work performed by contractor and subcontractor employees.

CONTRACT REPORTING WAS INCOMPLETE

Regular reporting by the contractor is normally required to permit the government to effectively monitor and evaluate the contractor's activities, performance, and costs. The contractor operating PASS was required to give SBA a monthly status report that included a narrative of the project's status, accomplishments, and unresolved problems.

Our analysis showed that the monthly reports were incomplete and did not provide SBA management with the information it needed to effectively manage the contractor's performance and cost. For example, the reports occasionally mentioned that meetings were held to discuss various subjects that concerned SBA and the contractor. However, the reports lacked substance--they did not mention the alternatives discussed, decisions made, or parties responsible for followup on unresolved issues. As a result, SBA management did not have sufficient and well documented information about the decisions, agreements, and activities that were to correct the problems discussed.

The SBA contract also required that the monthly report include an agenda for the next month's activities. We believe a meaningful agenda would have included a list of tasks to be

completed, specific deliverables, and expected completion dates. Such information is valuable for assessing a contractor's actual-versus-planned performance from month to month. However, only four of the nine monthly reports submitted between October 1982 and June 1983 included an agenda, and most reports lacked specific tasks, plans, completion dates, and commitments.

Other important information that would have showed the contractor's actual-versus-planned performance and cost was not required tc be included in the contractor's report. We believe this information would have provided SBA management with a documented, cumulative summary of the contractor's performance and cost for all PASS functions, which could have been compared against established performance levels required in the contract. Lacking timely and useful information with which to monitor contractor performance, SBA could not effectively initiate changes or modifications to improve--if necessary--the contractor's performance.

Although SBA representatives recognized that the management and cost reporting structure used during fiscal year 1983 was not useful, little was done to correct identified weaknesses The contractor told us that it had generally complied with contract reporting requirements and would have made changes to the reports, had changes been requested by SBA.

OPERATING COSTS WERE HIGHER THAN ANTICIPATED

The original anticipated cost for operating PASS in fiscal year 1983 was $673,949, which was based on the contractor's total estimated cost for doing each task required in the contract. The contractor reportedly based these estimates on SBA's procurement documents.

The contractor subsequently submitted additional pricing proposals that raised the estimated cost for fiscal year 1983 to $1,441,006--$767,057, or about 114 percent, higher than the original proposal. (As of Jan. 1, 1984, total actual costs were not available.) Although the additional funding requested was significant, SBA did not require the contractor to provide a detailed explanation or task analysis explaining why the additional costs would be incurred. The contracting officer did request the Defense Contract Audit Agency to audit the proposed increase. However, the primary purpose of the audit was to determine the accuracy of the contractor's cost projections; it was not intended to evaluate the contractor's performance or evaluate why costs were higher than originally estimated. The audit report, dated September 14, 1983, listed several cost discrepancies, but otherwise concluded that the contractor's proposals were an acceptable basis for price negotiations.

As shown in the table below, we compared the original estimated costs with the revised costs for the major cost categories in fiscal year 1983. The largest dollar differences were $617,538 for computer services and $134,852 for labor.

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Comparison of Original Versus Revised Cost

Fiscal Year 1983

Major cost category	Costs		Differences	
	Original	Revised	Amount	Percent
Labor	$416,895	$ 551,747	$134,852	32
Equipment	22,529	43,487	20,958	93
Computer services	175,118	812,656	637,538	364
Other	59,407	33,116	-26,291	-44
Total	$673,949	$1,441,006	$767,057	114

The contractor told us computer costs were higher because SBA failed to provide comprehensive historic computer utilization information during the proposal process. The contractor stated that this information would have permitted a more accurate estimate of computer utilization. For example, SBA procurement documents did not include a detailed workload analysis showing the amount and type of computer resources used for each function.

To explain the higher estimated cost for labor, the contractor said that, because the PASS operating software did not perform as expected and was poorly documented, additional people were needed to maintain and operate the system.

THE FUTURE OF PASS IS UNCERTAIN

The contract for operating PASS expired on September 30, 1983. Although SBA had the option to renew the contract for fiscal year 1984, SBA decided on May 12, 1983, that not renewing it would be in the government's best interest. This decision was generally based on

--SBA's determination, after the contract had been awarded, that the current contractor was not a small business (as required by the contract) and

--concern with the high costs of operating the system.

SBA planned to conduct a fully competitive procurement and award the contract to a small business by September 30, 1983. However, on July 18, 1983, SBA discontinued this procurement action on the basis that SBA did not have enough time to complete a fully competitive procurement by September 30, 1983.

SBA program representatives told us that because of the time constraints they considered awarding a sole-source contract to

another vendor that had bid on the PASS contract during the last competitive procurement in 1982. This alternative was determined infeasible because of the amount of time that had passed since the vendor submitted its proposal. Another alternative considered was to convert the PASS operating software to run on the Department of Commerce computer facility, which had computer time available. This was determined infeasible because of uncertainties about conversion costs and about SBA's ability to convert the system by October 1, 1983.

Ultimately, SBA decided to negotiate an interagency agreement with the U.S. Railway Association. The Association had operated and tested certain functions of PASS during January and February 1983, which SBA believed demonstrated sufficient capability to operate the system. SBA representatives believed the operation of PASS would be more economical on the Railway Association's computer than on a computer facility in the private sector. SBA estimated a potential savings of about $500,000 during fiscal year 1984.

On August 31, 1983, SBA's Assistant Administrator for Administration told us that SBA had selected the alternative to use the services of the Railway Association, with certain modifications. First, the Association would operate PASS only for fiscal year 1984. Second, SBA would hire a socially or economically disadvantaged (8(a)) firm to redesign, develop, and test a new PASS system to operate on a minicomputer. We were also told that SBA tentatively planned to conduct a competitive procurement for operation of the new system by September 30, 1984.

The Assistant Administrator also told us that he was asked to lead a study group evaluation of the current system, obtaining viewpoints from a cross section of PASS users. The study group's report to the Administrator, dated October 7, 1983, concluded that it was a strongly held view of PASS users that the current system should be kept, with a number of changes and refinements. In addition, the report included recommendations that SBA

--establish an active working group to tap the ideas, experience, and enthusiasm of PASS users, and

--delay contracting for PASS changes until the users group provided further input.

As of January 1, 1984, SBA was proceeding with its total redesign plans. SBA's decision to redesign PASS was not based on a comprehensive analysis that justified both the need for a total system redesign and its implementation on a minicomputer. For example, SBA did not (1) update the functional requirements document that included all of the current requirements of SBA, other federal, and private users, (2) evaluate whether changes can be made to the existing system that would eliminate the need for a total system redesign effort, or (3) study the costs, benefits, and risks associated with each potential system alternative. Furthermore, SBA selected a minicomputer as the target machine

(hardware) without evaluating the current and future hardware, software, and telecommunications requirements. Nor did the agency evaluate the potential effects on the system of significantly increasing the number of PASS users and the amount of information the system would be required to maintain if PASS were used by all federal agencies and government contractors as the primary source of information about small businesses. In accordance with good system development practices, decisions on hardware and software should not be made until these analyses of requirements and workload have been performed and the results are validated by the system's users.

CONCLUSIONS

We believe the gaps in SBA's oversight of contractor activities and costs were significant. When SBA hired a contractor to operate PASS, the agency had to rely on that contractor to operate the system according to specifications and within cost. However, a contractor's involvement did not absolve SBA from its management responsibilities. Furthermore, because SBA changed contractors at the beginning of fiscal year 1983, it should have closely monitored contractor activities until all system functions operated smoothly.

Regarding the future of PASS, changing system operators while concurrently designing a system to replace PASS involves high risks that have not been fully addressed by SBA. The U.S. Railway Association, designated as the new operator of PASS, will not have the benefit of a well documented system to help resolve persistent operational problems. In addition, the Association will inherit a large backlog of profiles for processing and may be required to quickly resume important system functions that were not operated during fiscal year 1983.

We recognize that the high cost and software problems that occurred during fiscal year 1983 lend support to SBA's position that PASS should be redesigned. However, redesigning automated systems is often a risky and costly endeavor. We are concerned that SBA's decision to redesign PASS was not based on comprehensive analyses--which would also form the basis for guiding design activities. Furthermore, the selection of a minicomputer as the target machine is premature and may inappropriately limit available alternatives for meeting overall system objectives and long term needs of its users. SBA's time frame for redesigning PASS may be too optimistic considering the extensive effort historically experienced by agencies in designing, developing, documenting, testing, and implementing automated systems.

RECOMMENDATIONS

To increase the level of technical oversight in operating PASS and to build an appropriate foundation for a new system, if needed, we recommend that the Administrator of SBA:

--Direct the program and contracting offices to closely monitor the technical and management operations of PASS at the U.S. Railway Association.

--Defer any hardware or software decisions on a new system until SBA (1) analyzes the current functional requirements and evaluates the current system's ability to meet these requirements, (2) identifies alternative system approaches to meeting these requirements, and (3) performs a cost-benefit analysis of each approach to use as a basis for any future redesign efforts.

AGENCY COMMENTS

SBA disagreed with our position that management was not closely monitoring the contractor's performance and costs. SBA believed that it had fulfilled its oversight responsibilities through regular management meetings with the contractor. We believe that closer monitoring was necessary, considering the weaknesses noted. As a minimum, SBA should have periodically reviewed the work being performed by contractor and subcontractor employees and required the contractor to provide more meaningful reports about its actual-versus-planned performance and costs.

SBA also disagreed with our position that the new system development should be delayed. SBA planned to award a contract for the redesign, development, and implementation of PASS in January 1984. The agency agreed that the information developed from a functional requirements study and analysis of system alternatives and cost benefits would be helpful. However, SBA believed that the high cost and serious operational problems that occurred during fiscal year 1983 warranted prompt initiation of the new system development.

We believe that the development and implementation of an automated information system is often a costly and risky endeavor, even when the appropriate foundation for the system has been well defined, documented, and validated by the system's users. Without this foundation, the system development may be very time consuming and expensive and may not satisfy user needs. This could further inhibit federal efforts to identify contracting opportunities for small businesses.

APPENDIX I

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United States House of Representatives
Committee on Small Business
Subcommittee on General Oversight and the Economy
B-363 Rayburn House Office Building
Washington, D.C. 20515

March 9, 1983

Mr. Charles Bowsher
Comptroller General
General Accounting Office
441 G St., NW
Washington, DC 20548

Dear Mr. Bowsher:

It has long been the policy of the Congress to ensure that the federal government maximize procurement opportunities with small business contractors. One of the most important tools that the government can use to achieve this objective is a well maintained data system that would allow federal agencies to target their procurement activities to potential small business contractors.

In late 1978, the Small Business Administration instituted the Procurement Automated Source System (PASS) to provide federal agencies with lists of potential small business contractors. The PASS program lists and profiles these small firms by their area of expertise. According to GAO letter report B-178205 (June 26, 1979), the SBA expected to have 150,000 entries by 1983.

I feel it would be very useful for the General Accounting Office to initiate an investigation of the SBA's PASS program. I would like to know how well the system is functioning and if it is being used by other federal agencies to foster small business procurement contracting opportunities. Does PASS contain accurate, relevant and up to date information about the small businesses on file? I would also be interested in learning what plans the SBA has, as well as what the GAO feels should be done, to make the PASS program as effective as possible.

In addition, the Small Business Innovation Development Act, P.L. 97-219, requires that the SBA:

> develop and maintain a source file and an information program to assure each qualified and interested small business concern the opportunity to participate in Federal agency small business innovation research programs.

I understand that the SBA is using the PASS program to comply with the above-mentioned provision of P.L.97-219. I would like the GAO to include in its investigation of PASS an analysis of how information accrued under P.L. 97-219 is being incorporated into the system. Any suggestions or comments the GAO has in this area would be welcome.

If you have any questions about this request, please call Mark Levine of the Oversight Subcommittee's staff at 225-8944.

Sincerely,

Berkley Bedell

BB:mjl

RESULTS OF GAO'S USER SURVEY OF PASS

As part of our review of the Procurement Automated Source System (PASS), we conducted a nationwide survey of the system's users to determine (1) how well PASS was functioning, (2) whether its information was accurate, reliable, and timely, (3) how the information was being used, and (4) what could be done to improve the system's effectiveness.

When we selected our sample on May 10, 1983, there were 99 PASS users, including SBA offices, federal and state agencies, and private companies located in 30 states and the District of Columbia. Using a structured questionnaire, we surveyed 28 users in 20 states and the District of Columbia. In selecting the 28--19 federal and 9 private--we considered (1) frequency of usage, (2) type of user, including SBA offices, federal agencies, and private companies, and (3) geographic location. The users selected accounted for 3,384, or about 60 percent, of the inquiries into PASS during the first 7 months of fiscal year 1983. Although we did not make statistical projections from our results, the problems and concerns they raised formed part of the basis for our findings, conclusions, and recommendations.

The responses of 27 users are summarized below. (One user told us it no longer used PASS and therefore had no responses.)

QUESTIONS RELATED TO HOW WELL PASS HAS BEEN OPERATING

1. How long have you used PASS?

Response	No. of Users
1 - 2 years	10
3 - 4 "	7
Over 4 "	10

2. Has your usage increased, decreased, or remained the same?

Response	No. of Users
Increased	14
Decreased	5
Same	7
Just started using system	1

3. How often do you use PASS?

Response	No. of Users
Daily	11
Weekly	12
Monthly	4

4. Did you provide input into the design of PASS?

Response	No. of Users
Yes	4
No	23

5. What types of problems have you experienced?

Response	No. of Users
Not being able to log in or not having the system available	20
Performing searches	7
Using key words	17

6. The system restricts the number of firms you can display to 25 firms per search. Does this cause a problem when more than 25 firms are identified?

Response	No. of Users
Yes	13
No	14

7. Have you had formal training on how to use PASS?

Response	No. of Users
Yes	20
No	7

QUESTIONS RELATED TO THE ACCURACY, RELIABILITY, AND TIMELINESS OF PASS INFORMATION

8. Is your office an SBA collection point for registration information on new or existing firms?

Response	No. of Users
Yes	5
No	22

8a. If yes, is the information entered into PASS in a timely manner?

Response	No. of Users
No	5

8b. If yes, what effect does untimeliness of data entry have? (Some users had more than one response.)

Response	No. of Users
Lessens credibility of system	2
Decreases firms' chance to compete	5
Causes complaints about out-of-date information	1

9. Is the information you obtain from PASS easy to understand?

Response	No. of Users
Yes	27

10. Do you verify the information from PASS for accuracy, completeness, or recentness?

Response	No. of Users
Yes	8
No, assume it is correct	19

10a. If no, who do you rely on to verify the information?

Response	No. of Users
SBA or the contractor that operates PASS	15
Procurement representative who requested the information	1
Both of the above	3

QUESTIONS RELATED TO HOW PASS INFORMATION IS USED

11. Why is PASS used?

Response	No. of Users
To assist in meeting goals to award contracts to certain types of firms	21
To assist procurement representatives in identifying small firms and to provide small firms a means for being identified for contract opportunities	6

12. Could you operate without PASS?

Response	No. of Users
Yes, but not as efficiently	27

13. Does the information from PASS have to be refined before using it?

Response	No. of Users
No	27

14. Is PASS your primary source of information?

Response	No. of Users
Yes	14
No, a supplemental	13

15. Do you follow up on whether the firms identified from PASS searches were awarded contracts?

Response	No. of Users
Yes	4
No	23

QUESTIONS RELATED TO IMPROVEMENTS IN PASS OR ITS INFORMATION

We obtained suggestions from 26 users to improve operation of the system or its information. The suggestions are listed below, by category.

Suggestions related to the use or structure of key words	No. of Users
-- Make key words more specific in the users' respective fields of interest	17

-- Provide for adjacent searching capability when a key word identifier consists of more than one word 6

-- Establish a system feature that allows flexibility in the spelling of approved key words in the profile description 2

-- Have users annually provide an updated list of key words 1

Suggestions related to searching the PASS data base

-- Provide more examples in users guide on how to combine profile information fields to facilitate eliminating firms that do not meet the desired requirements 3

-- Use Standard Industrial Classification Codes or Federal Supply Classification Codes with key words to permit more precise identification of firms 11

-- Allow some latitude in spelling when conducting searches by firm name 3

-- Remove the limit of 25 firms displayed per search 13

-- Shorten log-in procedures 1

-- Shorten response time to complete searches 3

-- Allow a user to interrupt the display of a profile after sufficient information has been displayed to determine that the firm is not applicable 1

Suggestions related to verification of information in PASS

-- Send a copy of the profile to the firm after it initially registers in PASS, to verify the information 1

-- Allow PASS users to make certain corrections to information 2

Suggestions related to describing a firm's capabilities

-- Have a firm use appropriate key words when describing its capabilities	1
-- Include references to previous experience on the profile	3
-- Have a firm indicate on the profile the workload it is willing to handle	1

Other suggestions made by users

-- Have one governmentwide system containing information on small firms	1
-- Hold annual workshops for users to discuss experiences with PASS	1
-- Publicize the availability of PASS to a greater extent than is presently being done	1
-- Include more firms in PASS	4
-- Update information in PASS more frequently	5
-- Enter new firms into PASS more promptly	3

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